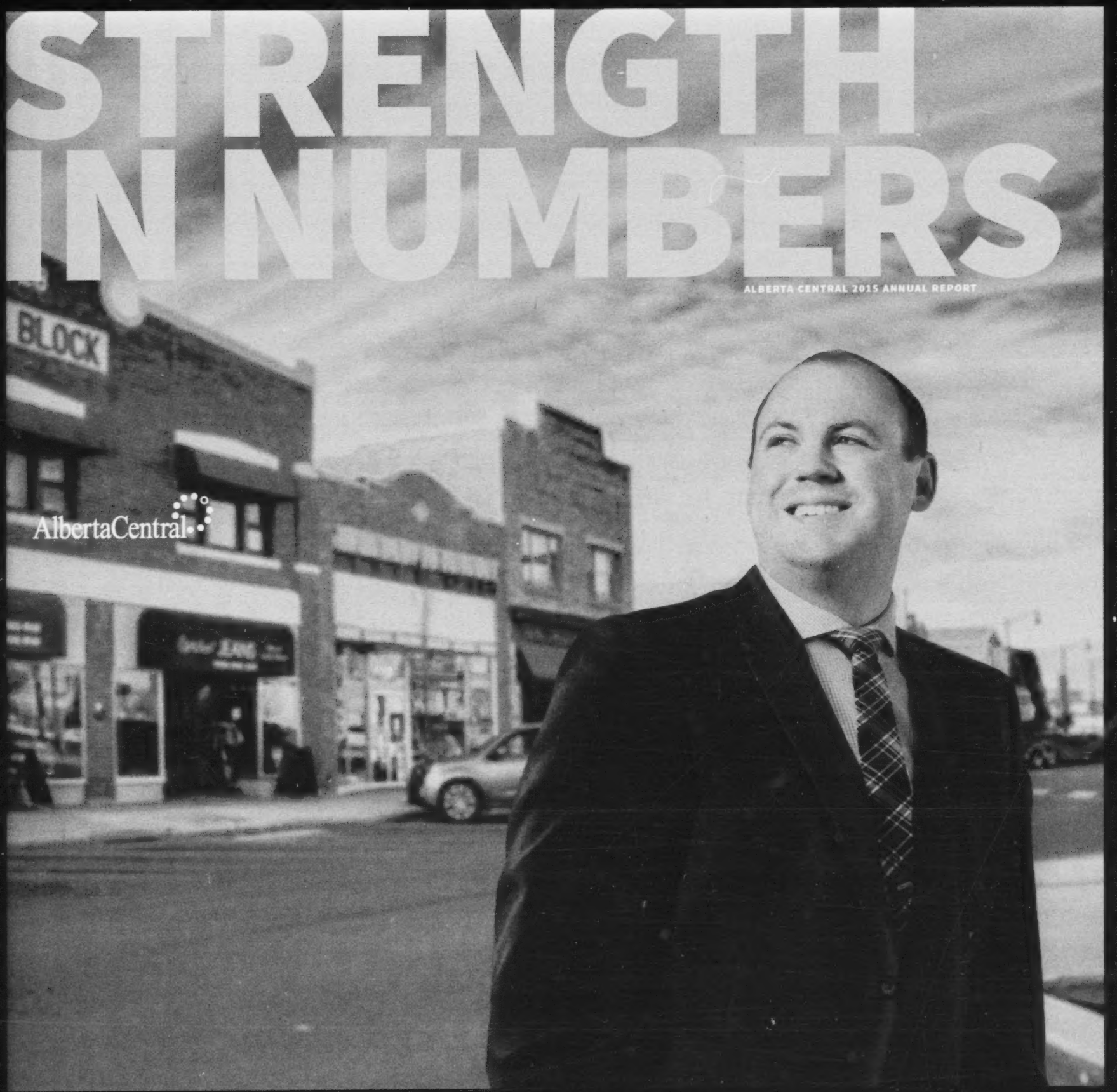
STRENGTH IN NUMBERS

ALBERTA CENTRAL 2015 ANNUAL REPORT



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AlbertaCentral

what's inside

Welcome to Alberta Central's 2015 Annual Report. Inside, we'll share some of our achievements and challenges of the past year and we'll reveal strategies for the year ahead. We'll share stories and statistics that illuminate the profound impact of the credit union system across Alberta and disclose the sound financials for which our institution is known. ***read on.***

On the cover:
NATHAN KUSIEK
MARKETING DIRECTOR, O-NET, OLDS
ALBERTA'S COMMUNITY OWNED INTERNET SERVICE PROVIDER
AND CREDIT UNION BUSINESS MEMBER

Strength in numbers. It's the essence of the cooperative system and the heart of what we do at Alberta Central. By collaborating and sharing resources, credit union members and member institutions are stronger and more successful. Inside, you'll read some of the measurable results of this cooperation.

Strong approach. Through advocacy, technology leadership, service and operational excellence, Alberta Central makes member credit unions stronger. Discover some of the ways Alberta Central worked to build member success in 2015.

Strong support. Meet Jae Kim and Ashleigh Long, two credit union employees whose stories highlight how credit unions empower their people to positively impact their communities.

Stronger together. Take a ride aboard a vintage trolley in Drumheller and learn how an Alberta credit union helped entrepreneur Karel Stojan get his dream on the road.

Strong values. Alberta's credit unions aren't just trusted financial institutions; they play an active role in building strong communities. Learn how the credit union system is making a difference through contributions and initiatives throughout Alberta.

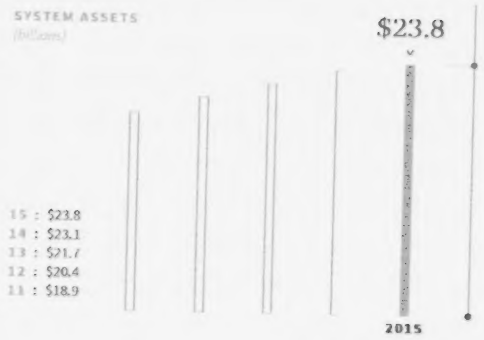
Across Alberta, more than 600,000 people are credit union members. Their stories illustrate the capacity of the cooperative financial system to benefit families, the economy and communities. Read their stories at albertacreditunions.com or follow the conversation on Instagram, Twitter or Facebook using #bankoneachother.

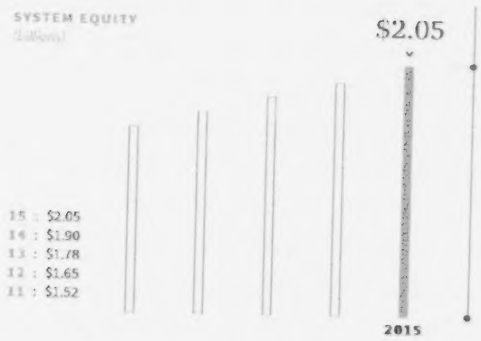
CHRISTINE SMITH
PEOPLE AND CULTURE ANALYST
WITH ALBERTA CENTRAL

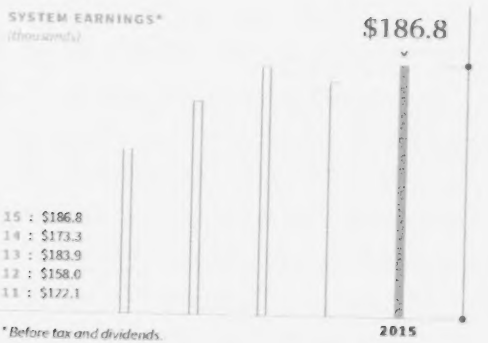
STRENGTH IN NUMBERS

In 2015, despite a challenging economic climate and a low interest rate environment, Alberta Central saw record levels of core earnings (excluding one-time gains) and delivered strong patronage and share dividend payments to our members.

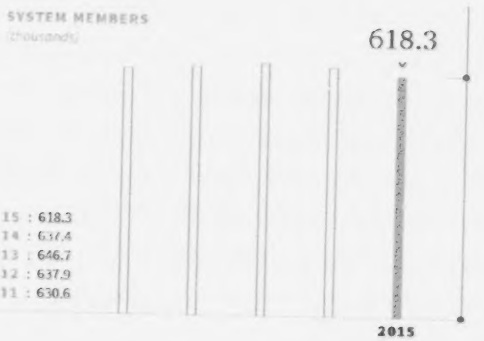
At Alberta Central, we take seriously the role we play in supporting our members. Our performance as an organization is measured by the success of our members. When Alberta Central succeeds, credit unions succeed.







*Before tax and dividends.



2015 FINANCIAL HIGHLIGHTS

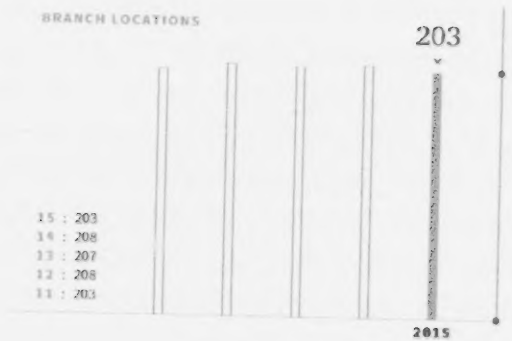
YEAR ENDED DECEMBER 31	2015	2014
(thousands of dollars)		
Net income*	11,730	10,983
Net interest income	14,943	14,114
Operating expenses (net)	3,365	3,394
Earnings in Celero Solutions	1,382	961
Patronage dividends	7,500	10,000
Share capital dividends	5,974	4,189
Total Assets	2,671,156	2,606,177
Members' Equity	304,020	291,723

** Before increases in asset backed commercial paper (ABCP), patronage dividends and taxes.*

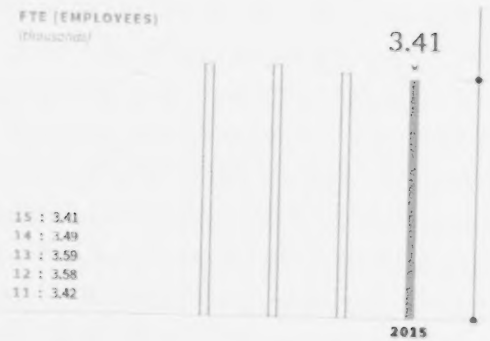
CREDIT UNIONS IN ALBERTA

ATMs

BRANCH LOCATIONS



FTE (EMPLOYEES)
(thousands)



stronger together

SHARING PROSPERITY IS AT THE HEART OF THE COOPERATIVE SYSTEM. At Alberta Central, our goal is to be a key strategic partner for Alberta credit unions. Through our commitment to customer service and the efforts of our dedicated employees, we are helping our credit unions serve and support their members. By collaborating, we help Alberta's cooperative system grow, prosper and achieve financial success. We are stronger together.

Here are some of Alberta Central's successes in 2015, and some of the ways our members benefited:

SUCCESS IN NUMBERS

2015 proved to be a record year for Alberta Central, resulting in strong share dividends and patronage dividends for our member credit unions. Despite difficult market conditions and continued low interest rates, Alberta Central achieved the highest level of core earnings in its history, excluding one-time gains.

Thanks to greater levels of credit union lending, resilient net interest income and strong earnings in the CUPS and Celero joint ventures, Alberta Central's financial results for the year* were $11.7 million, up $0.7 million from 2014.

BRANCH REMOTE DEPOSIT CAPTURE

In 2015, Alberta Central saw the completion of the Branch Remote Deposit Capture (bRDC) project. The project transformed how our credit unions process clearing items, allowing member credit unions to use scanners to capture electronic images of cheques and then transmit those images for processing and settlement. The result has been greater efficiency and decreased courier costs. The bRDC team led by CUPS Payment Services converted all credit unions in Alberta, Saskatchewan and First Nations Bank of Canada locations in under nine months.

HOME SWEET HOME

Winston Churchill said "We shape our buildings; thereafter they shape us." In June 2015, Alberta Central employees returned to the renovated space on the third floor of their Heritage Square office and found a culture shift waiting for them.

The office redesign, branded *Home Sweet Home*, has transformed how Alberta Central employees interact and work. The renovated space is open-concept, with no traditional offices, low profile workstations and a myriad of collaborative spaces—from centralized printers and coffee stations to network meeting rooms. The redesign has helped to foster a more customer-centric, collaborative culture at Alberta Central.

This culture shift has been well received by employees. On the 2015 employee survey, employees said the new surroundings have increased their overall level of job satisfaction.

Finally, the open-concept redesign accommodates workspaces for 110 employees and provides options for space utilization to address changing requirements going forward. It significantly reduced Alberta Central's physical footprint, which will reduce lease costs in future years.

** Before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes.*

PATRONAGE DIVIDENDS
(millions)

THINK LIKE A CREDIT UNION

In 2013, Alberta Central identified "Think Like a Credit Union" as a strategic priority. For us, that meant being more in tune with our member institutions, anticipating their challenges and listening to their needs, providing useful support and information and delivering results. In short, we sought to ensure our members think of us as a trusted partner.

To achieve this, we re-engineered our product and service offerings to enable seamless delivery to credit union members. We provided new support, solutions and market intelligence to make it easier for credit unions to roll out new products and services.

One of the key initiatives that evolved from this strategic goal was the development of the Credit Union Networks. The six networks: regulatory compliance, communications, lending, banking floor, human resources, and finance, hosted meetings throughout the year to help identify business priorities of benefit to the system. Participation has increased exponentially since inception, paving the way for more relevant and solutions-oriented discussions on existing and emerging issues common to credit unions.

CREDIT UNION AWARENESS

Increasing consumer awareness of credit unions fuels the success of our shared vision. In 2015 Alberta Central created a digital and print credit union awareness campaign. Officially launching in the spring of 2016, the "Bank on Each Other" campaign consists of credit union member stories that share first-hand experiences of the positive impacts credit unions have on people and communities. The materials created, including a booklet, posters and digital media collateral, will be available to Alberta credit unions to assist in broadening awareness across the province.

PREDATORY LENDING AWARENESS

In 2015, Alberta Central discussed credit union concerns regarding predatory lending both publicly and with the Alberta government. Alberta Central recommended to the Alberta government that credit unions and policymakers collaborate to develop alternative products and solutions to payday loans. Ours was among the many strong voices heard on this issue in 2015, and we will continue to support collaborative efforts toward reform and increasing awareness of payday lending alternatives for Albertans.

GOVERNMENT RELATIONS SUPPORT

In response to the 2015 provincial election, which ushered in a new government, Alberta Central developed a grassroots advocacy program to raise awareness among newly-elected MLAs regarding the community and economic benefits of the Alberta credit union system. As a result, Alberta Central and credit unions have developed new relationships with several Alberta MLAs and key government officials.

Alberta Central continued to advocate for the Alberta government to develop its proposal for a single regulator to regulate credit unions, Alberta Central, ATB Financial, insurance companies, and pension funds.

Alberta Central also developed a legislative review initiative to define recommendations on modernizing the Credit Union Act to enhance credit union competitiveness. Looking forward to 2016, Alberta Central will continue to consult extensively with credit unions to draft this legislative submission.

Karel Stojan took a chance buying a run-down trolley bus at an auction, but thanks to support from his local credit union, that risk is paying off. In its first year, Stojan's restored Dinosaur Valley Express bus transported hundreds of visitors to badlands attractions like the Hoodoos, the Atlas Coal Mine Historical site and the Last Chance Saloon. Stojan, equal parts raconteur and entrepreneur, is the trolly's popular interpretive guide.

THE ENTREPRENEUR EXPRESS

KAREL STOJAN | SUPPORTING SMALL BUSINESS AND BIG IDEAS

SOON AFTER STARTING THEIR BUSINESS IN DRUMHELLER, KAREL AND SHELLEY STOJAN SWITCHED FROM A NATIONAL BANK TO A LOCAL CREDIT UNION WHERE SERVICE IS BIG, FEES ARE SMALL AND COMMUNITY INITIATIVES ARE SUPPORTED.

IT WAS A BOLD MOVE TO DITCH THEIR BIG CITY CAREERS and settle in Alberta's badlands, but Karel Stojan and his wife Shelley were ready for change. They invested in a nice piece of land just south of Rosedale, developed their own Nature's Essential Garden line of all-natural products, and started Sage Valley Marketing Ltd. to reach a growing national market.

Personal savings, business savvy, a few industry connections and hard work proved their ticket to success. "We haven't needed any outside finances," says Stojan. "We just managed to grow with what we had."

Still, when you're establishing a business, you need a financial institution for day-to-day business transactions. The couple opened a commercial account with a national financial institution, but service fees started adding up, says Stojan. "That money meant a lot to us then." They immediately switched to the local credit union where service is big, fees are small and community initiatives are supported.

Two years ago, Chinook Financial, a division of Connect First Credit Union, helped sponsor Drumheller's very own Dino Den. Locals were invited to pitch their new-business ideas for a chance to take home start-up cash and business services.

Stojan walked into the Dino Den with a cardboard cut-out of a trolley car and a business plan for Dinosaur Valley Express, his latest entrepreneurial adventure. He walked out with about $4,000 in cash and kind.

His plan was to offer guided hop-on, hop-off trolley service to local attractions like the Royal Tyrrell Museum and the Atlas Coal Mine National Historic Site. Stojan had purchased a 1920s-style trolley car, which had already arrived in Drumheller via flat deck rail from Ottawa. It needed sprucing up and some mechanical work to be ready for the tourist season. The Dino Den winnings helped Stojan get the trolley on the road in time for a fruitful first year. Success in the Den helped put Dinosaur Valley Express on the map – no bones about it.

PAYING IT FORWARD

ASHLEIGH LONG | BUILDING A CULTURE OF CARING

Ashleigh Long, marketing coordinator at Lakeland Credit Union, logged 360 hours as a volunteer firefighter at the Bonnyville Fire Department last year. In 2015, this commitment earned Long the Lakeland Credit Union Community Spirit Award which includes a week's paid vacation. It's the kind of support Long has come to count on from her employer, which takes an active role in supporting employee community involvement.

"WORKING FOR A CREDIT UNION MAKES IT POSSIBLE FOR ME TO VOLUNTEER AT THE FIRE DEPARTMENT, BECAUSE THEY SUPPORT STAFF IN THEIR COMMUNITY INVOLVEMENT."

THE JEEP CHEROKEE ROLLED THREE TIMES before coming to a stop on its roof. Inside the car, a woman, a man and two children took stock: no serious injuries, no imminent danger. Unfortunately, there was also no way out of the car. The impact of the tumble had twisted the metal and jammed the doors, trapping the passengers inside.

For 11-year-old Ashleigh Long, being stuck inside a vehicle that had just tumbled across the highway was scary. So when a firefighter arrived and helped release her from the car, it became a seminal moment.

Fast-forward 14 years, and Ashleigh is a volunteer firefighter at the Bonnyville Fire Department with NFPA qualifications for vehicle extractions. "I'm glad I can help someone the way that firefighter helped me," she says.

In fact, Long helps out often. In 2015 alone she logged 360 hours as a volunteer firefighter, responding to car accidents, fires and other emergencies in her community. It's a commitment she says she couldn't make without the support of her employer.

When Long isn't working at the fire hall, she's a marketing coordinator at Lakeland Credit Union in Bonnyville. "Working at the credit union makes it possible for me to volunteer at the fire department because they support staff in their community involvement."

For Long, that support has meant a whole lot of encouragement and a bit of flexibility when fighting fires keeps her up all night. Lakeland Credit Union, like many Alberta credit unions, also offers tangible support to employees who volunteer in their community. Last year, the credit union gave Long a Community Spirit Award, and awarded her an extra week's paid vacation.

Support and incentives for community volunteering have helped create a culture of caring at Lakeland. In fact, in 2015, credit union employees in Bonnyville and Cold Lake volunteered an average of 316 hours a month. "We're encouraged to make a difference in the community," says Long. "I like working for an employer like that."

AN INSPIRED SOCIAL NETWORK

JAE KIM | CONNECTING COMMUNITIES THROUGH SUCCESS

Jae and Tamara Kim, both Servus Credit Union employees, are at home at the Sejong Edmonton Korean Cultural Centre where their daughters Charlotte (4) and Olivia (2) attend daycare and martial arts classes. The centre, which was financed by Servus, provides space for cultural connection and community programs.

"OUR CUSTOMERS ARE OUR STAKEHOLDERS. WE'LL DO EVERYTHING WE CAN TO MAKE SURE THEY'RE LOOKED AFTER BECAUSE, AT THE END OF THE DAY, THEY OWN A PART OF THE ORGANIZATION."

WHEN YOU'VE GOT SOMETHING GOOD GOING ON and you share it, you get something even better. That's the thinking behind the credit union movement where members help members grow their financial wealth and expand their personal potential. Success comes from being connected.

Jae Kim started building his own credit union profile four years ago when he signed on as a branch manager in Edmonton. Today, he's regional manager of wealth management, and a walking, talking advocate for the credit union way.

"Our customers are our stakeholders," explains Kim. "We'll do everything we can to make sure they're looked after because, at the end of the day, they own a part of the organization."

With upwards of 50,000 locations around the world representing more than 217 million members, the credit union business model of putting people before profit is an international success.

There's no secret behind the movement's momentum, says Kim. "When you make customers number one and treat them that way, they talk about their experience and become an effective draw for new members."

Not everyone has someone to talk to. Kim helps connect new Canadians and foreign workers to the larger community through financial literacy seminars and other community events. He's even introduced a strategy to connect credit unions globally, so when members move, across the country or across the world, their new credit union branch can be ready to receive them.

"We really do care about our members and our employees," says Kim. "We all share in the credit union's success."

social balance sheet

MISSION

— We help credit unions achieve success by providing collaborative solutions that support their business needs.

VISION

— Alberta Central will think and act with an unwavering focus on delivering value to credit unions.

VALUES

— *responsibility:* Being dependable today and tomorrow.
— *empowerment:* Raise the bar. Own your future.
— *cooperative:* Working together to make a difference.
— *customer service:* Being there because you matter.

Calgary Entrepreneur Colin Smith is changing the world, one event at a time. His social enterprise, Green Events Services, has diverted 90 tonnes of waste from local landfills. It's progress he looks to his credit union to support. "My credit union has been a partner to me," he says. "I know that they see value in a social enterprise beyond the bottom line."

STRONGER COMMUNITIES

Alberta Central and credit union community initiatives:
Being part of the credit union system means you're part of the solution. Credit unions provide support around the world, offering much needed financial services and a cooperative hand up. They play an active role in our communities, contributing volunteer time and financial support—about $5 million a year in Alberta alone.

Credit unions also show their community spirit through programs to support employee volunteerism, through financial education programs, and by lobbying for consumer rights on issues like payday lending.

ALBERTA CENTRAL

Like credit unions and their members, Alberta Central plays an active role in building healthy, vibrant communities. Here are some of the ways we did that in 2015:

GOLDEYE FOUNDATION SOCIETY

The Goldeye Centre, supported by the Goldeye Foundation Society, is an educational and retreat facility focused on youth, including school and scouting programs. It is also a venue for the Alberta Community and Cooperative Association youth leadership program.

over $20,000

SCHOLARSHIPS

Each year, Alberta Central contributes scholarships to credit union employees or children of employees or directors.

$30,500

ALBERTA CHARITIES AND ORGANIZATIONS

Recipients of Alberta Central contributions include the Calgary Food Bank, Build It Forward Foundation, Co-op Community Foundation, Make-A-Wish Foundation, Seniors Secret Service, Alberta Adolescent Recovery Centre (AARC), United Way of Calgary and Area and more.

over $44,000

CO-OPERATIVE DEVELOPMENT FOUNDATION OF CANADA (CDF) / CANADIAN CO-OPERATIVE ASSOCIATION (CCA)

For more than 65 years, the Co-operative Development Foundation of Canada has taken action to make the world a better place. Alberta Central provides annual donations to CDF in support of their efforts to help fight poverty and create more secure lives through community-owned co-ops in Africa, Asia and Latin America.

over $63,000

ALBERTA CREDIT UNIONS

Across Alberta, credit unions are guided by the cooperative principles of community spirit and helping others. Here is a sampling of some of the organizations credit unions supported in 2015:

1st Choice Savings Centre for Sport and Wellness
Airdrie Festival of Lights
Airdrie Minor Hockey
Art Gallery of Alberta
Banff Community Foundation
Battle River Hockey League
Beaumont Blues Festival
Beaumont Community Centre
Big Bike for Heart and Stroke
Bonnyville Health Foundation
Bonnyville Pontiacs Hockey
Boys and Girls Club – Edson
Brown Bagging for Calgary's Kids
Calgary Drop-In Centre
Calgary Emergency Women's Shelter
Calgary Food Bank
Camrose Minor Sports Association
Canmore Minor Soccer
Cantara Safehouse
City of Lethbridge's Project Connect
Cochrane Arts and Cultural Foundation
Cochrane Society for Community Housing
Cold Lake Minor Hockey
Eckville Rodeo
Edson Fire Department
Girl Guides
GreenLearning Canada Foundation
Innisfree Ukrainian Dancers
Junior Achievement
Kidsport
LINKages Society of Alberta
Local 4H Clubs
Mannville Community Fitness Centre
Olds Splash Park
Ronald McDonald House
Royal Canadian Legion – Camrose
St. Jerome's Breakfast Program
STARS Air Ambulance
The Lions Club
The Mustard Seed
United Way of Calgary and Area
Vermilion Soccer Association
Viking Health Foundation Heliport Project

INVESTED IN COMMUNITIES

Credit unions are anchored in the communities they serve. Here is a sampling of the many ways credit unions sought to meet the unique needs of those communities in 2015:

- Servus Credit Union partnered with the Glenbow Museum to offer free access nights on the first Thursday of every month.
- Calgary Police Credit Union offers scholarships to children from preschool to grade 12. Children are given an age appropriate task, like drawing a picture explaining what they want to be when they grow up or writing a short essay, to be considered for the scholarships.
- Lakeland Credit Union's *Care Wear* program raised over $9,900 in 2015 for local charities and organizations. Employees paid $2 a week to participate in casual Fridays and then chose which organization received the funds.
- Vision Credit Union employees contributed funds to a Christmas sharing program to purchase gifts for 14 local families in 2015. Employees also prepared and delivered Christmas hampers to families in need.
- Rocky Credit Union initiated a *Rock Your Money* website with the goal of helping young adults learn about financial matters.
- First Calgary Credit Union partnered with Momentum Community Economic Development Society to create a community loan-referral program called *Cash Crunch Loans*. It seeks to help people avoid bad debt cycles resulting from high-interest small loans from pay-day lenders.
- Vermilion Credit Union offers the *FAT CAT® Accelerated Reading and Math Program*, which purchases books and other supplies for students at elementary schools in Vermilion and nearby communities.

MESSAGE FROM THE CHAIR

"THE VERY NATURE OF THE COOPERATIVE MODEL IS REFLECTIVE OF THE STRENGTH OF CREDIT UNIONS JOINING TOGETHER TO CREATE VALUE FOR THE MEMBERS THEY SERVE, IN THE COMMUNITIES IN WHICH THEY LIVE." ALISON STARKE | BOARD CHAIR

SYSTEM ASSETS
(billions)

AS A VETERINARIAN BY TRADE, I am familiar with the concept of *Strength in Numbers* as applied to animals living and travelling together in herds to ensure increased survival rates. When cattle are together in a herd their stress level is reduced, there are naturally selected leaders and the level of safety for each animal increases. They are stronger as a group that acts collectively as one unit. They are benefiting from *Strength in Numbers*.

In the same capacity, the theme of *Strength in Numbers* is a fitting descriptor for the credit union system. The very nature of the cooperative model is reflective of the strength of credit unions joining together to create value for the members they serve, in the communities in which they live. This is the credit union difference and what has supported our proud history of serving members in Alberta since 1938.

The credit union difference is what has helped shape the system in Alberta for more than 77 years. In Alberta, credit unions have worked together to ensure efficient delivery of quality products and services to our members and provide support to the communities in which we operate. The need to work together has become more important over the years as credit unions face new challenges and increasing competition.

Challenges facing the system, such as the low interest rate environment, increasing regulatory requirements, rapidly advancing technology, and a highly competitive market, all present opportunities for us to band together on common issues. The Networks first introduced by Alberta Central in 2013 are a venue for discussing the challenges faced by credit unions and providing a platform for collaborative solutions. We are working together to support our *Strength in Numbers*.

Never is this more apparent than in times of change and transition, of which we saw plenty in 2015. New governments were voted in at both the national and provincial levels and the economic downturn in Alberta, brought changes that affected credit unions and their members. The board and Alberta Central executive team acknowledge both the challenges and opportunities resulting from these changes and remain sensitive to the political and economic environment going forward.

Despite the challenges and environmental changes, the Alberta system numbers remained strong in 2015 with assets of $23.8 billion and more than 618,000 members. We measure *Strength in Numbers*.

We welcomed a new board member in 2015 with the addition of Ron Pilger and said good bye to a respected colleague and friend, with the passing of Margot Willison. I had the pleasure of working alongside Margot and was inspired by her passion for the credit union system. She will be missed and leaves behind a legacy of leadership and director development for credit unions.

There were some significant milestones met in 2015, including the successful completion of the Branch Remote Deposit Capture (bRDC) project. The rollout of bRDC saw delivery of increased efficiencies and reduced costs to credit unions throughout Alberta and Saskatchewan with the introduction of electronic scanning and processing of cheques and other negotiable items. Continued success was also measured in the Networks which saw increased participation by credit unions resulting in some great collaborative projects and opportunities to share best practices.

in memoriam

Margot Lynn Willison

January 18, 1964 - November 14, 2015

On November 14, 2015, the Alberta credit union system lost one of its most loyal supporters with the passing of Margot Willison at the age of 51. Margot was aligned with credit unions in various capacities throughout her whole life and was respected for her loyalty and dedication to the system.

Margot's allegiance to credit unions began at the young age of 12 when she opened her first deposit account at the Sherwood Credit Union in Regina, Saskatchewan. While a student at the University of Alberta, she spent her summers working as a member service representative and following her graduation she went to work for Shell Canada, where she joined the employee credit union.

During her 28 year career with Shell Canada, Margot spent 20 years on the Shell Employees' Credit Union board of directors including her last stint as president. During her nine years as board president, Shell Employees' Credit Union won the prestigious Performance Excellence award three times (1996, 2002, 2003).

Margot obtained her Accredited Canadian Credit Union Director (ACCUD) certification in 2014 and was elected to the Alberta Central board of directors the same year. During her time on the board, Margot was a strong supporter of the Alberta Young Leaders (AYL) development program as she wanted to ensure the continuity of the credit union system was transferred to the next generation of leadership.

Her support for the cooperative model went beyond credit unions as she was appointed to the board for the Alberta Community and Co-operative Association (ACCA) in April 2014.

Margot will be remembered for her lifelong dedication to the financial cooperatives system, her passionate advocacy, and enduring focus on improving and supporting credit unions in Alberta. On behalf of Alberta Central and Alberta credit unions, we honour Margot Willison and thank her family for the years of dedication and support for the betterment of the credit union system.

Moving into 2016, the board of directors and executive team will continue to focus on Alberta Central's core business strategies and the identified objectives that will help us accomplish our most important priority—enhancing the services we offer to credit unions to help ensure their continued success.

This annual report marks my final year as chair of the Alberta Central board. As I prepare to hand over the reins to the incoming board chairperson, I have confidence in the continuing performance of the Alberta system based on the quality of the leadership I've had the privilege of working alongside for the past six years. I would like to acknowledge my fellow board members for your dedication to Alberta Central and commitment to supporting the continued importance of credit unions in our province.

On behalf of the board of directors, I would like to thank the management and employees of Alberta Central for your unwavering commitment and daily efforts in support of the continued success and ongoing strength of the credit unions of Alberta. This was another strong year for the system and I extend my congratulations to the individual credit unions on their accomplishments in 2015. With a continued focus on working together as a system and recognizing our *Strength in Numbers*, I am confident that credit unions in Alberta will continue to successfully deliver on the credit union difference in 2016.

Alison K Starke

ALISON STARKE
BOARD CHAIR

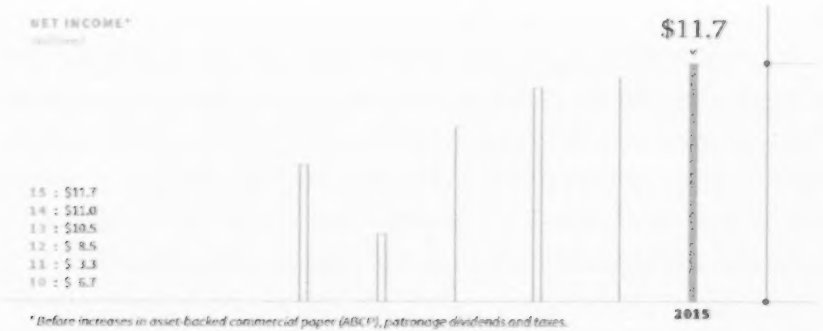
BOARD OF DIRECTORS

(left to right)

BOB PETRYK REGION B	**GARTH YEOMANS** NORTH REGION	**JOHN RICHTER** SOUTH REGION *(sitting)*	**PAUL KELLY** FIRST VICE CHAIR REGION B	**RON PILGER** NORTH REGION	**DAN BRUINOOGE** REGION A *(sitting)*
PERRY DOOLEY REGION A	**ALISON STARKE** BOARD CHAIR REGION A	**IAN GLASSFORD** REGION A	**KEN MORRIS** SECOND VICE CHAIR NORTH REGION	**BRETT OLAND** SOUTH REGION *(sitting)*	**JON HOLT** REGION A

MESSAGE TO STAKEHOLDERS

"DESPITE A YEAR OF GREAT TRANSITION, ALBERTA CENTRAL ACHIEVED OUR HIGHEST LEVELS OF CORE EARNINGS ON RECORD AND DELIVERED STRONG PATRONAGE AND SHARE DIVIDEND PAYMENTS TO ITS MEMBER CREDIT UNIONS. THESE ARE NUMBERS WORTH CELEBRATING." GRAHAM WETTER / PRESIDENT AND CEO



* Before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes.

LOOKING BACK ON 2015, it was a year of tremendous transformation. A change in government at both the national and provincial level occurred, leading to both uncertainty and hope for the new leadership. Closer to home, the decline in oil prices had a dramatic effect on the Alberta economy and dampened the market outlook. While we could not have predicted these changes this time last year, the resulting outcome is that both have affected how credit unions and their members are conducting business.

The introduction of a new provincial government presented the Alberta system with an opportunity to share the story of the credit union difference with a new audience. In response, Alberta Central, together with credit union leaders, formed the *Government Relations Advisory Committee* in a collaborative effort to identify areas for legislative enhancement and opportunities to advocate on behalf of the system. We are already seeing tremendous government engagement resulting from the efforts of that group and look forward to continued advancement on our legislative issues in 2016.

Credit unions remain sensitive to the effects the economic downturn has had on Albertans and continue to strive to understand and support their members' changing needs. The value of collaborative spirit is never greater than in a time of uncertainty and change. In addition to low oil prices and the new government in 2015, ongoing challenges faced by credit unions included continued margin compression, a highly competitive market, emerging technologies, and increasing regulatory requirements.

Within Alberta, the provincial credit union system continued the trend of consolidation as the number of credit unions reduced from 31 to 27 as a result of mergers. While the number of credit unions may have decreased, the system benefited from a continued focus on building strong member relationships, identifying improved efficiencies, and enhanced customer service delivery. In support of our *Strength in Numbers*, consolidation also helps to ensure the resilience of the system as credit unions work together to find ways to effectively address the challenging business environment conditions.

Despite a year of great transition, Alberta Central achieved our highest levels of core earnings on record and delivered strong patronage and share dividend payments to our member credit unions. These are numbers worth celebrating. We attribute the positive results to successful execution of investment strategies, increased credit union lending activities, effective customer management, and strong results from our joint venture partners: Celero and CUPS Payment Services.

Finally, a year in review perspective would not be complete without acknowledging the *Strength in Numbers* of our employee base. The Alberta Central and CUPS Payment Services employees have adapted well to the changes we've faced and continue to support the corporate values and business objectives, while identifying opportunities for innovation and enhanced efficiencies.

The following highlights describe 2015 accomplishments in our four strategic priorities.

"THE VALUE OF COLLABORATIVE SPIRIT IS NEVER GREATER THAN IN A TIME OF UNCERTAINTY AND CHANGE." GRAHAM WETTER | SVP, CFO AND CEO

THINK LIKE A CREDIT UNION

A key factor in Alberta Central's commitment to *Think Like a Credit Union* is our continued focus on the Networks. First introduced in 2013, the Networks have developed into a strong source of collaboration and best practices sharing. The increasing engagement of credit unions over the past year resulted in some very successful deliverables including the development of online Anti-Money Laundering training through the Regulatory Compliance Network, negotiation of reduced rates for deposits held in real estate and lawyer's trust accounts through the Banking Floor Network, and introduction of automation in support of Schedule 7 regulatory reporting facilitated by the Finance Network.

We continue to monitor engagement and relevance of the Networks to ensure return on value of credit union investment. In that respect, the total number of Networks reduced to six this year after redundancies were identified between the IT Network and Credit Union Technology Advisory Group (CUTAG). Strong results in year end surveys confirm that the Networks are providing value and we will continue to support this forum for engaging the credit unions in discussions on market trends, identifying opportunities for collaboration, and working together towards system solutions.

DELIVER TIMELY RESULTS

The introduction of a project management office (PMO) supported our commitment to *Deliver Timely Results* by integrating and streamlining internal processes based on the voice of the customer. The move to a formal project management office led to the introduction of tools and processes to promote efficiencies in the areas of initiative assessment, project management, and organizational capacity planning. In addition, change management training was provided to leaders to build competencies in support of transformational leadership. The benefit of introducing improvements to internal processes allows us to better focus our resources on customer-focused priorities helping ensure we deliver value to the credit unions in a timely manner.

PAYMENTS TECHNOLOGY LEADERSHIP

The National Payments Strategy Committee continued its focused work on positioning the credit union system to better leverage payments services to create growth opportunities in the future and ensure our continued relevance in the financial services space. Very good progress has been made in advancing the strategy through the focused workstreams, resulting in completion of a number of business cases and recommendations that will enable credit unions to have greater influence and control over critical payments infrastructure, deliver innovative products and services to their members, and benefit from reduced operating costs. Alberta Central and credit union representatives remain highly engaged in the process and this work will continue to be a major focus of our systems' strategic efforts.

The Branch Remote Deposit Capture (bRDC) project successfully wrapped up with full implementation in the fall of 2015. The transfer to electronic cheque capture provided increased efficiency of automation, reduced processing times, and eliminated the need for expensive courier costs. The bRDC project successfully delivered on its objective to provide increased payment efficiencies for Alberta and Saskatchewan credit unions. The project was completed ahead of schedule

OVERALL EMPLOYEE SATISFACTION

and under budget with strong positive feedback from credit unions on the support provided during implementation. It is a shining example of the value of *Strength in Numbers* resulting from the collaborative efforts between CUPS Payment Services, SaskCentral, Manitoba Central, and Central 1.

ENGAGE OUR PEOPLE

In June 2015, the office renovation project, *Home Sweet Home*, officially came to a close with employees proudly moving into their new work space. The renovations not only altered and optimized our physical workspace but also transformed how we work. Employees have benefited from increased opportunities for sharing in the open office environment that promotes teamwork and collaboration. Additional benefits of the open design include an increased focus on innovation, technology efficiencies, reducing our environmental footprint, and maximizing our space utilization.

The annual Employee Satisfaction Survey once again resulted in very positive ratings for Alberta Central with an overall satisfaction rate of 80%. Survey results indicate employees are proud to work at Alberta Central and have a strong appreciation for our culture that encourages innovation, respect, and a focus on customer service. We continue to promote and celebrate the core values by sharing *Living the Values* stories at meetings and acknowledging positive actions that demonstrate values behaviors throughout the year.

LOOKING FORWARD

Predictions for the Alberta economy suggest 2016 will continue to present challenges with low energy prices, high unemployment and market instability. The financial services industry in which Alberta Central and its member credit unions operate will continue to evolve rapidly, driven by technological advancements, regulatory developments, competition from existing players and new entrants, and persistently low interest rates.

In 2016, Alberta Central will embark on the first year of the 2016-2018 Strategic Plan. The strategy will deliver value to credit unions in the form of quality products and services, stable and sustainable financial performance, efficient and effective processes, and a skilled and engaged work force. With growing recognition of the importance of economies of scale to the system, collaboration and transformation will continue to occur at both the provincial and national levels. We are committed to ensuring that Alberta Central continues to assess the service delivery model to ensure we are as efficient and effective as possible in supporting credit unions.

In reflecting back on one of our most memorable years, I would like to thank the board for their insight, support, and direction. Alberta Central has benefited from operating under the direction of a board that understands the challenges faced by our industry and shares our passion for the credit union system. Finally, I acknowledge the Alberta Central employees for their hard work and commitment. As a whole, we really are an organization powered by *Strength in Numbers* and I thank each one of you for your dedication, efforts, and focus on the power of the credit union difference.

GRAHAM WETTER
PRESIDENT AND CEO

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Alberta Central's board is comprised of thirteen directors who represent four credit union regions. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus and Connect First Credit Union).

REGION	DIRECTOR ENTITLEMENT	CREDIT UNION
A	5	1. Servus
B	2	2. Connect First* * *First Calgary Financial, previously part of region B, and Chinook, previously part of the South region, commenced reporting under a single entity of Connect First effective November 01, 2014. CHEC Credit Union, previously part of the South region, dissolved into Connect First Credit Union April 01, 2015. Pegasus Savings and Credit Union, previously part of the South region, dissolved into Connect First Credit Union effective April 01, 2015.*
North	3	3. Vision 4. Beaumont 5. Christian 6. Eckville 7. Edson 8. Encompass* 9. Lakeland 10. River City 11. Rocky 12. S.G.E. 13. University Hospital 14. Vermilion * *Wainwright and Wetaskiwin, previously part of the North region, amalgamated into Encompass Credit Union Ltd effective April 01, 2015*
South	3	15. 1st Choice 16. Bow Valley 17. Calgary Police 18. Canada Safeway 19. Inglewood 20. Khalsa 21. Legacy Savings* 22. Lethbridge Legion 23. Mountain View 24. Pincher Creek 25. Shell 26. Stanco 27. TransCanada * *City Plus amalgamated into Legacy Savings and Credit Union effective November 01, 2015*

Director Roles and Responsibilities

The board of directors, representing Alberta credit unions, is responsible for the stewardship of Alberta Central; this includes, defining Alberta Central's risk appetite, setting the strategy and overseeing its planning process and the general oversight of management and the operations of Alberta Central. The role and responsibilities of Alberta Central's board and the president and chief executive officer are outlined in Alberta Central's corporate policies, bylaws and terms of reference for each board standing committee.

(left to right)
JULIE MACDONALD, SARAH BOUTRON AND PATIENCE MWANGI
MEMBERS OF THE COMMUNICATIONS TEAM AT ALBERTA CENTRAL

Board Committees
Alberta Central's board has standing committees responsible for both legislated and delegated functions. The committees are comprised of Alberta Central directors, and management acts as resources for the committees. Each committee meets regularly throughout the year and is required to provide timely and regular reports to the board of directors.

The chairs of each committee are elected by the directors of the respective committees. The chair of the board is a voting ex-officio member of all of the board standing committees.

Governance Committee
The Governance Committee is comprised of six directors. The committee has oversight responsibility for Alberta Central's corporate policies and governance practices. Every two years, the committee ensures that board standing committees' terms of reference, Alberta Central's board remuneration policy and Alberta Central's other corporate policies are reviewed and updated as required. The Governance Committee also ensures that a board self-assessment process is conducted every year in order to maximize the effective functioning and performance of the board, and is responsible for making recommendations to the board to address any issues identified through the self-assessment process. This committee remains informed of best practices in corporate governance and makes recommendations to the board to continually improve Alberta Central's governance practices. The Governance Committee manages the performance review process and compensation of the president and chief executive officer on an annual basis.

Audit and Finance Committee
The Audit and Finance Committee is comprised of six directors. The committee has oversight and responsibility for the *Investment Policy*, *Lending Policy* and *Enterprise Risk Management Policy* and provides oversight of Alberta Central's internal audit function. The committee meets directly with and reviews reports prepared by internal and external auditors (as required), and ensures compliance with Alberta Central's bylaws and financial policies. The committee is also responsible for reviewing and recommending to the board the audit mandate and annual audit plan, as well as Alberta Central's financial, risk management and treasury reports, and the annual budget.

Conduct Review Committee
The Conduct Review Committee is comprised of the same six directors as the Audit and Finance Committee, and the chair of the committee is the same as that of the Audit and Finance Committee. To ensure compliance with the requirements of the *Credit Union Act (Alberta)* and the *Cooperative Credit Associations Act (CCAA)* with respect to related party transactions, the committee was established to provide oversight and responsibility for managing compliance with these aspects of the *Credit Union Act (Alberta)* and the *CCAA*. All related party transactions of board members and executive management are reviewed by the Conduct Review Committee, which is responsible for reporting any violation of related-party rules to OSFI.

Internal Controls
Alberta Central's internal audit team, under the direction of the board's Audit and Finance Committee, periodically assesses the effectiveness of internal control procedures. As part of Alberta Central's regulatory compliance self-assessment procedures, an independent audit of Alberta Central's compliance with legislative and regulatory requirements is undertaken on an annual basis. The findings and recommendations of the internal audit team are reported to Alberta Central management and the Audit and Finance Committee to ensure appropriate internal controls are in place, and continued compliance with applicable regulatory requirements.

Risk Management
To effectively manage risk, the board has established an *Enterprise Risk Management Policy*, *Lending Policy* and *Investment Policy*. On an annual basis, the Audit and Finance Committee reviews and make recommendations to the board of directors on these policies, with the exception of the *Enterprise Risk Management Policy*, which is reviewed every second year. The *Investment Policy* provides for an asset liability committee (ALCO) comprised of management, which meets on a quarterly basis to formally review Alberta Central's investment and lending portfolio management and compliance with policy. A Management Risk Committee, comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessments. A Management Credit Committee, comprised of the executive management team and other senior management personnel, regularly assesses the loan portfolio of Alberta Central and approves all loan applications within the board approved lending limits and risk appetite.

Conduct and Accountability
Alberta Central has policies and procedures that promote professional and ethical behaviour and in addition has a Code of Conduct which outlines the standards of conduct to which employees and directors must adhere in performing their duties for the organization. On an annual basis, Alberta Central's employees are required to review and certify their understanding of and compliance with the specified business conduct policies. Alberta Central's directors annually complete an oath of office and conflict of interest declaration, which outlines their obligations with respect to the Code of Conduct, confidentiality of Alberta Central business matters, and related party transaction rules. Alberta Central also has a Whistleblower Policy in place to provide a mechanism for employees to report instances of serious and deliberate acts of unethical behavior related to the workplace and to provide assurance that they will be protected from harassment, retaliation or adverse employment consequences provided the report was made in good faith and was not frivolous or malicious.

Disclosure of Governance Practices
Developments in corporate governance in Canada for public companies require a full disclosure of corporate governance practices, and the Ontario Securities Commission has published a disclosure guideline specific to this requirement. In accordance with the developments in corporate governance best practices, Alberta Central now discloses its governance practices in its annual report.

Board Independence
Alberta Central's board is comprised entirely of independent, non-employee directors. In furthering the independence of its directors, Alberta Central's board meets independently of management as part of every scheduled meeting. The board also meets with the external auditor, without management present, at least annually and the internal audit function also has direct access to the board's Audit and Finance Committee. The board may independently engage outside professional advisors and is empowered to do so by Alberta Central's bylaws.

Board Self-Assessment
The board conducts an annual self-assessment process to evaluate the effectiveness of the board as a whole. Alberta Central's executive management team participates in the board assessment process (at the invitation of the board) to provide input and recommendations on board effectiveness and process. The board also conducts a director skills self-assessment and peer assessment as part of this process. The data received from this report is used by the Governance Committee to discuss skill gaps at the board level and assist the committee in making recommendations with respect to board recruitment. The feedback is also used by individual directors in planning their professional development activities.

Director Remuneration
Directors receive remuneration in the form of monthly honoraria, per diem fees for attendance at board meetings and compensation for travel time and expenses. The total remuneration and expenses paid to Alberta Central directors is disclosed in note 17, Related Party Transactions.

Director Orientation and Development
All directors participate in an orientation session upon appointment to the board to assist them in carrying out their roles and responsibilities as directors. Each director is provided with the opportunity and budget to attend courses, seminars and conferences of their choice for professional development activities relevant to their role on Alberta Central's board.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

This section of the annual report, which provides management's discussion and analysis (MD&A) of the results of operations and financial condition of Alberta Central, should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2015. The financial statements have been audited by KPMG LLP who have been the appointed external audit firm since 2012. This MD&A is dated February 24, 2016 and provides comments regarding Alberta Central's core businesses, financial performance, economic outlook and risk management.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements. By their very nature, such statements require management to make assumptions and involve inherent risks and uncertainties. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations due to a number of factors including but not limited to legislative or regulatory changes and general economic conditions in Alberta and Canada. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

CORE BUSINESSES

As the liquidity manager, payments processor and trade association for the system, Alberta Central and its joint ventures provide leadership and support to credit unions. Alberta Central's treasury and lending departments work closely together to manage the statutory and excess liquidity deposits and demand and term funding requirements for Alberta credit unions. They are responsible for maintaining a stable earning asset base while providing for the borrowing needs of Alberta credit unions and their members. Alberta Central's commercial paper program, which relies on an R-1 (low) credit rating by DBRS[1], provides access to capital markets. While its core treasury and lending services are designed to meet the financing, liquidity and growth needs of the system, the company also provides foreign exchange, derivative and syndicated loan program services. As the trade organization for Alberta credit unions, Alberta Central provides leadership and strategic support, and undertakes advocacy to represent the interests of its members with provincial regulators and government.

Alberta Central is governed under the *Cooperative Credit Associations Act* and the *Credit Union Act*, and is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) and provincially by Alberta Treasury Board and Finance (Alberta TBF). In May 2015, the Department of Finance Canada announced that OSFI will cease its supervision of provincial credit union centrals on January 15, 2017. The announcement of this effective date follows the federal government's decision in 2014 to cease the federal supervision of provincial credit union centrals. Alberta Central will continue to be regulated by Alberta TBF and does not expect this change to materially impact its regulatory requirements.

With a 50.0 percent ownership interest in the Credit Union Payment Services (CUPS) joint venture, Alberta Central provides leadership in payments technology and supports the payment processing, clearing and settlement operations for the Alberta credit union system. Operations include bill payments, cheque imaging, cheque clearing and deposits, electronic payment services such as funds transfers and wire transfers, and electronic document management services. Alberta Central's participation in the earnings from this venture is based on the volume of Alberta credit union payment processing activity.

Work to develop a national payments strategy (NPS) continued in 2015 under the CEO Payments Strategy committee, with significant support from Alberta Central. This initiative seeks transformative change for the credit union system by moving from the current landscape of fragmented, high cost payments businesses across the country to a technically and financially competitive national payments and switching business owned by credit unions in order to be quicker to market, retain control of our destiny, reduce costs and remain competitive and relevant for credit unions and their members.

[1] *2015 Rating Report*

As a representative of the Alberta credit union system, Alberta Central will continue to take an active and significant leadership role on NPS committees through 2016, in particular the payments governance and group clearing work streams. Alberta Central will bring a strong voice to the committee tables to advocate Alberta credit unions' interests. Clear and regular communication and engagement with credit union stakeholders will occur to gather system perspectives on the direction of the NPS and keep them abreast of the progress of the various work streams.

The importance of technology innovation is evident in CUPS' leadership in the image exchange, branch remote deposit capture (bRDC) and other electronic payment optimization projects. Remote deposit capture (RDC) is the process of electronically capturing cheque images and data from distributed points of deposit (such as branch [bRDC], ATM, corporate, and mobile) and transmitting that information for deposit and clearing. The implementation phase of the bRDC project concluded in September 2015 after CUPS successfully implemented all 496 Alberta and Saskatchewan credit union locations onto the bRDC system with high satisfaction levels reported by credit unions. With significantly lower onboarding costs and successful on time completion of the project, the development fee was retracted effective September 1, 2015, saving Alberta credit unions approximately $0.2 million. The roll out of bRDC has brought significant changes to the operating environment within CUPS with decreases in both revenues and expenses due to the decline of paper based volumes, reductions in deposit processing fees for credit unions and reduced personnel and transportation costs. The organization is now piloting corporate RDC (cRDC) during 2016 which allows corporate members to electronically deposit CAD and USD cheques to any of their branch accounts, eliminating the need to travel to the branch.

Financial institutions in Canada will need to implement an image environment in 2016-2017 in response to Canadian Payments Association (CPA) rule changes. In 2014, a standard bilateral agreement was developed by all financial institutions outlining the framework to support image exchange with other direct clearers. Alberta Central will be piloting the exchange of image files in 2016-2017 with other financial institutions. Once this phase of the project is complete, it will result in the capability to exchange forward presentment and return files with financial institutions and will eliminate the automated clearing settlement system in CUPS and the need for printed cheque replacement documents.

Alberta Central's interest in Celero Solutions (Celero) and Celero's 49.0 percent interest in Everlink Payment Services Inc. (Everlink), enables it to support information technology (IT) solutions and systems for credit unions and other financial institutions. The ownership structure of Celero was modified slightly in 2015, with each of the provincial centrals of Alberta, Saskatchewan and Manitoba now owning 33.3 percent (previously 31.4 percent).

Celero is a leading provider of IT solutions to financial institutions across Canada and is consistently ranked among the world's top financial technology companies on the annual FinTech Top 100 list. A full-capability IT service provider, Celero provides complete banking solutions, IT planning, systems integration, hosting, support, maintenance and professional services to meet the unique needs of financial institutions of all sizes and delivers world-class reliability through its Canadian-based data centres, offices and operations. Celero is unique in its depth of acquired core banking system conversion and technology support services for Canadian credit unions, which it offers to its clients located from British Columbia to Ontario.

Everlink provides innovative payments solutions and services for credit unions, banks, and independent sales organizations across Canada. In addition to supplying best-in-breed technology infrastructure and payment network connectivity via the well-established payment network gateway, Everlink offers a diversified range of integrated payments solutions including Automated Teller Machine (ATM) managed services, card issuance and management, fraud management, point-of-sale acquiring and professional services.

2015 ECONOMIC ENVIRONMENT

The International Monetary Fund (IMF) estimated global growth in 2015 at 3.1 percent (compared to 3.4 in 2014). Advanced economies grew 1.9 percent (compared to 1.8 percent in 2014) with the most notable increases coming from the United States and Spain. Developing economies slowed to 4.0 percent (compared to 4.6 in 2014) with noticeable declines in Russia and Brazil.

In the beginning of 2015 the Bank of Canada (BoC) lowered the target overnight rate from 1.0 to 0.75 percent and in July lowered it further to 0.50 percent. Canada's real Gross Domestic Product (GDP) growth was 1.2 percent (compared to 2.5 percent in 2014). The Canadian total Consumer Price Index (CPI) was 1.4 percent.

Alberta's population grew 1.7 percent, unemployment averaged 5.9 percent, and average weekly wages decreased 0.4 percent. Real GDP growth in Alberta was -1.3 percent.

After trading between US$40 and $60 per barrel for most of 2015, the North American crude oil benchmark price sharply declined in early December. WTI prices averaged just above $42 for the final quarter (even lower than during the first quarter of 2009, at the height of the previous global downturn), and below $49 for the year—the lowest annual price in over a decade.

Low interest rate margins, the high cost of investment in technology, an aging membership base, and aggressive competition in the financial services marketplace were additional pressures on Alberta's credit unions. Despite the challenging economic conditions and tough competitive environment, the credit union system continued to operate in a sustainable and profitable manner. Alberta Central achieved its highest level of core earnings and delivered strong patronage and share dividend payments to its member credit unions, underscoring the strength of the system.

2015 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM

Based on the audited 2015 year-end figures (October 31, 2015), annual total asset growth among Alberta's credit unions was 3.0 percent (2014 – 6.4 percent). Credit Union Deposit Guarantee Corporation attributes the decline to reduced growth in residential mortgages and a decline in consumer loans. Annual loan growth was 3.5 percent (2014 – 6.2 percent). Annual deposit growth was 0.40 percent (2014 – 5.6 percent). Net income before taxes and patronage dividends totaled 0.8 percent of average assets, exceeding the 5-year average of 0.77 percent.

Alberta Credit Union System – Loans

YEAR ENDED OCTOBER 31	2015		2014	
	$	% GROWTH	$	% GROWTH
(thousands of dollars)				
Total loans	**20,339,402**	**3.46%**	**19,658,688**	**6.16%**
Residential mortgages	11,412,425	4.04%	10,968,898	6.94%
Commercial loans	6,151,366	4.69%	5,875,791	5.34%
Consumer loans	1,909,452	(4.33%)	1,995,892	4.47%
Agricultural and other loans	866,159	5.87%	818,107	4.33%
Total assets	23,762,031	2.99%	23,071,382	6.35%
Total member deposits	20,687,872	0.38%	20,808,540	5.63%
Total liabilities	21,708,371	2.53%	21,173,198	6.31%
Total equity	2,053,660	8.19%	1,898,185	6.74%

Alberta Credit Union System – Results of Operations

YEAR ENDED OCTOBER 31	2015	2014
(thousands of dollars)		
Average assets	23,419,770	22,406,240
Financial margin	577,570	569,746
(as a % of average assets)	2.47%	2.54%
Net income before taxes and patronage	186,836	173,115
(as a % of average assets)	0.80%	0.77%

Alberta credit union system financial information has been provided by the Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All financial information is based on a fiscal October 31 year end.

With Alberta Central's role as a liquidity manager and a requirement for Alberta credit unions to maintain statutory liquidity deposits with the provincial central, the future outlook for growth in Alberta Central's yielding asset base is naturally tied to the performance of the Alberta credit union system including the generation of deposits and growth in loans.

2015 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL

Financial Overview

Alberta Central's financial results for 2015, before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes, were $11.7 million compared to $11.0 million in 2014. This is the highest level of core earnings in Alberta Central's history (excluding one-time gains). Higher levels of credit union lending helped to ease the downward pressures on margin, net interest income continued to show resiliency which, combined with strong earnings in the CUPS and Celero joint ventures, contributed to record results.

The continued improvement in the fair value of ABCP of $1.0 million in 2015, cumulatively totaling $70.5 million over the past six years, provided a boost to capital levels and enabled 2015 patronage dividends of $7.5 million to Alberta credit unions, bringing total patronage dividends to $62.5 million over the last three years.

Alberta Central's board declared additional patronage dividends to credit unions in early 2016 which will bring total distributions to $70.6 million and complete the patronage distribution of the 2007/2008 gains on the sale of Alberta Central's interest in the CUETS joint venture.

Share capital dividends of $6.0 million were paid to members in the first quarter of 2015 and the strong results in 2015 supported share dividend declarations of $6.5 million in the first quarter of 2016 (see Share Capital Dividends and Other Distributions).

Net Interest Income

Net interest income at Alberta Central is influenced by system asset growth, system liquidity (including credit union borrowing and business loans) and interest rates. Alberta system liquidity drew down during 2015 as credit union loan growth outpaced deposit growth and resulted in credit union borrowings from Alberta Central at various points throughout the year, particularly in the fourth quarter (See Liquidity and Regulatory Capital).

Alberta Central's holdings of short-term liquid securities are lower-yielding assets, and like its member credit unions, Alberta Central continued to experience financial margin compression throughout 2015 due to the flat yield curve and low interest rate environment. Commercial loan renewals and new business written in 2015 were advanced at lower interest rates reflective of competitive market pricing. Loan yields are expected to continue to decline as a result of low market interest rates and continued maturities and repayments of higher yielding loans.

However, the impact of rate cuts on Alberta Central's net interest income was delayed due to the medium term duration of a portion of Alberta Central's assets. This includes the effects of the long-term bond investment strategy implemented beginning in 2013. Due to the longer duration of these assets, the negative impact was not immediately felt when rates dropped in early 2015 and continued positive impacts from this strategy were realized in net interest income through the year. This, combined with higher than anticipated credit union borrowings, resulted in net interest income before provisions for credit losses, rising from $14.1 million to $14.9 million.

Alberta Central – Net Interest Income

YEAR ENDED DECEMBER 31			2015			2014
	$ AVERAGE BALANCES	$ INCOME/ EXPENSE	YIELD	$ AVERAGE BALANCES	$ INCOME/ EXPENSE	YIELD
(thousands of dollars)						
Cash and securities	2,344,683	21,781	0.93%	2,328,146	26,464	1.14%
CU loans	116,724	2,320	1.99%	80,311	1,818	2.26%
Business loans	202,418	7,474	3.69%	181,298	7,298	4.03%
Other	9,332	—	—	16,909	—	—
	2,673,157	31,575	1.18%	2,606,664	35,580	1.36%
Deposits	2,270,940	15,970	0.70%	2,273,719	21,147	0.93%
Borrowings	74,232	662	0.89%	33,566	319	0.95%
Other	5,543	—	—	10,982	—	—
	2,350,715	16,632	0.71%	2,318,267	21,466	0.93%
Shares	235,343	5,974	2.54%	221,366	4,189	1.89%
Retained earnings/AOCI	87,099	—	—	67,031	—	—
	322,442	5,974	1.85%	288,397	4,189	1.45%
	2,673,157	22,606	0.85%	2,606,664	25,655	0.98%
Net interest income *		14,943			14,114	

** Net interest income excluding provisions for credit losses and ABCP fair value adjustments*

Provision for Credit Losses

As a financial institution, Alberta Central is exposed to credit risk, primarily through its investment and lending activities. Although Alberta Central's non-credit union lending portfolio is concentrated in Alberta, credit risk exposure remains diversified across the industry sectors presented in the following table:

Alberta Central – Non-Credit Union Lending

YEAR ENDED DECEMBER 31	2015		2014	
	$	%	$	%
(thousands of dollars)				
Office	51,421	24.6%	46,177	23.4%
Retail	38,916	18.6%	15,979	8.1%
Industrial/warehouse	30,526	14.6%	29,960	15.2%
Hospitality	27,688	13.2%	36,403	18.4%
Health care	22,720	10.9%	23,714	12.0%
Apartment rental	15,454	7.4%	12,630	6.4%
Land development	8,033	3.8%	—	—
Finance and insurance	6,307	3.0%	6,801	3.4%
Technology	3,611	1.7%	4,082	2.1%
Real estate - other	3,265	1.6%	17,097	8.7%
Condominium construction	1,198	0.6%	4,689	2.4%
	209,139	100.0%	197,532	100.0%
Specific allowance	(997)		(3,177)	
Non-specific allowance	(1,500)		(1,100)	
Total non-credit union lending, net	206,642		193,255	

Alberta Central remains committed to its loan syndication program and a number of loans were syndicated with credit unions during the year to redistribute liquidity within the system and provide participating credit unions with higher yielding assets. Average volumes were up over 10 percent from 2014. The office, retail, apartment rental and land development sectors achieved growth in both dollar and percentage terms, which was offset by reduced lending in hospitality, health care, finance and insurance, real estate and condominium construction. The distribution of loans within the industrial/warehouse and technology industry sectors remained relatively consistent with the prior year.

Alberta Central management regularly reviews its portfolio to identify indications of any impairment. Alberta Central maintains specific and non-specific provisions for credit losses established as a result of reviews at an individual loan and loan portfolio level. Provisions are recorded to reduce the carrying amount of loans to their estimated realizable values.

No additional loans were designated as impaired during 2015; however three commercial loans written between 2007 and 2009 continue to be designated as impaired. Net provisions against principal of $0.7 million and interest of $0.1 million were recognized during the year on impaired loans, while the non-specific provision for credit losses increased $0.4 million reflective of the general Alberta market outlook. Principal and interest of $3.0 million which had been provided for was written off in 2015 against the specific allowance.

A significant amount of uncertainty remains regarding the fair value of the remaining impaired loans and the range of reasonable provisions for impairment could be considered fairly broad. Management has completed a best estimate of appropriate provisions based on information currently available. The carrying value of these loans, net of provisions, is $5.0 million. Actual realization on the remaining carrying value of the loans could vary significantly, either positively or negatively, from these estimates.

A non-specific provision is established based on Alberta Central management's overall evaluation of risk in the commercial loan and mortgage portfolio in recognition of potential losses not specifically identified on an item-by-item basis. Since credit unions are Alberta Central's syndicate partner in all commercial loans, management determines the non-specific provision using a model based on delinquency rates and loan write-offs in the credit union system combined with a qualitative assessment of changes in economic conditions and changes in the Alberta credit union system loan loss provisioning. With an increase in loan write-offs in the Alberta credit union system, Alberta Central's non-specific provision was increased by $0.4 million during the year, to $1.5 million. The non-specific provision is eight basis points (bps) of the gross commercial loan portfolio compared to six bps in the prior year.

Notes 2(d), 3(b) and 9 to the financial statements provide further details regarding specific and non-specific provisions for credit losses.

Operating Revenues

In addition to its net interest income, Alberta Central earns operating revenue from its interest in the CUPS joint venture, complementary financial services, credit union member dues, ancillary services provided on a fee for service basis and various facilities, human resources and accounting services provided to its joint ventures. Operating revenues increased in 2015 to $27.7 million (2014 – $26.8 million).

Because Alberta Central has joint control of CUPS and has rights to the assets and obligations for the liabilities, the proportionate consolidation method is used to record Alberta Central's share of CUPS' operating results. As such, Alberta Central's share of both CUPS' total income and total expenses are recorded through Alberta Central's operating revenues and operating expenses. CUPS' net revenues were above 2014 levels, primarily reflective of the growth in electronic payments and a special development assessment for the bRDC project. Alberta Central's share of CUPS net revenues totaled $11.9 million compared to $11.5 million in 2014.

Financial services operating revenues include revenue from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Also included are ancillary services such as manuals, credit union audit services, cash services and purchasing which are offered on a direct cost fee for service basis. Revenues earned by Alberta Central's financial and ancillary services were consistent year over year.

As a trade association for all Alberta credit unions, Alberta Central's role is to recognize where there is strength in shared action and to facilitate these opportunities. The trade function at Alberta Central provides leadership and strategic support, and undertakes advocacy to represent the interests of Alberta credit unions with provincial regulators and government. Dues related spending increases were 4.8 percent, comprised substantially of costs related to the national payments strategy initiative. Unspent 2015 dues of $0.8 million will be rebated to credit unions in 2016.

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses, including personnel, property and equipment, administration and organization costs, totaled $31.0 million (2014 – $30.1 million), reflecting an increase of 2.9%, driven primarily from spend related to the bRDC project and related restructuring costs and the national payments strategy initiative.

Personnel costs relate to approximately 76 full-time equivalents (FTEs) in Alberta Central and Alberta Central's share of costs related to approximately 72 FTEs in CUPS, which were reduced from 100 FTE in 2014 due to processing efficiencies arising from bRDC. Personnel and related costs increased by approximately $0.5 million from the prior year and included restructuring costs incurred during the bRDC project. Despite the significant change in the organization arising from this project, employee satisfaction survey results remained strong relative to the Hay Norm (North American-wide survey of standard employee engagement measures).

Administration and other expenses increased $0.2 million (1.9%) inclusive of bRDC related spending. Property and equipment operating expenses remained flat year over year with additional operating costs relating to Alberta Central's office re-design offset by savings from space under lease.

Organization operating expenses (third party costs for dues-funded activities) increased by $0.2 million, primarily driven by shared costs relating to the national payments initiative and the National Trade Association (NTA).

Equity Earnings in Celero

Alberta Central's interest in Celero is equity accounted within the statement of income, and includes Celero's 49.0 percent equity interest in Everlink. Alberta Central's share of net income was $1.4 million in 2015, an improvement of $0.4 million from 2014.

Celero completed another successful year in 2015 in both the achievement of record net income results and also the successful renewal of key supplier agreements which provides a solid foundation for future performance. Key amongst these is a strategically important new agreement with Fiserv which positions Celero as Fiserv's prime partner in Canada. This provides Celero with the ability to develop and support Fiserv's DNA and other application software products, to be more responsive to client requirements, and to bring new capabilities to Canadian credit unions at competitive prices. It also permits Celero to expand its services to credit unions across Canada, bringing with it the benefits of expanded scale. Celero has worked to ensure these new benefits are passed along to its customers over the life of the new agreement through advantageous new contract renewal offers. Celero has already added three new DNA banking clients adding important scale to its banking operations.

Celero's "Credit Union of the Future" will be a key focus for 2016 as the organization builds on strong interest by credit unions to find innovative new IT solutions.

Increase in Estimated Fair Value of ABCP

As outlined in Note 7 to the financial statements, at December 31, 2015 Alberta Central held non-bank and bank sponsored ABCP with a total face value of $181.5 million, with a fair value of $167.0 million. At the dates of acquisition, these short term investments were in compliance with Alberta Central's *Investment Policy* and were rated R-1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, the ABCP suffered a liquidity disruption and the notes were restructured into longer term floating rate notes reflecting the maturity of the related underlying assets. The replacement notes are classified as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis using bid pricing where available.

The value of ABCP improved slightly during 2015, rising $1.0 million (2014 – $5.5 million) for a total increase of $70.5 million since 2008. At December 31, 2015, the ABCP portfolio principal was valued at 92.0 percent of its face value. With enhanced capital levels resulting from the ABCP fair value increases, the board of directors declared patronage distributions to credit unions in 2015 and early 2016 (see Other Distributions). Management will continue to review the valuation of the notes on a quarterly basis and record fair value adjustments as appropriate under IFRS. As the valuation of ABCP remains subject to market volatility, it is reasonably possible that changes in conditions in the near term could require a material change in the estimated fair value.

During 2015, ABCP earned interest income of $1.1 million (yield of 59 bps) (2014 – $1.5 million reflecting a yield of 81 bps). Alberta Central received principal payments on the restructured notes of $5.6 million, bringing total principal reductions since the restructuring to $63.4 million. Although some notes could mature earlier, the expected repayment date for the majority of Alberta Central's ABCP portfolio is January 2017. Improvements in ratings of ABCP continued in 2015, and over 90.0 percent of Alberta Central's ABCP is now rated "A" or higher.

The ABCP investments have been excluded from the liquidity calculations discussed later in this report to the extent they have a maturity date beyond one year. Alberta Central has operated, and continues to operate, within its legislated liquidity requirements.

ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is a key component of an organization's effective enterprise risk management program and determines the level of capital that an organization should maintain to support the nature and level of the organization's risk. Under OSFI guidance an ICAAP is required as a sound business and financial practice for banks and trust companies. While OSFI's ICAAP requirements do not apply to cooperative liquidity providers such as Alberta Central, the development, approval and integration of a process similar to an ICAAP does form part of the Alberta TBF regulatory framework for the company.

Alberta Central has developed an ICAAP that identifies its risks and assesses the probability of these risks occurring; how much capital a risk would require; the impact of the business plan on capital levels, which includes performing stress testing and scenario analyses; and identifies the ranges of capital that should be held. Alberta Central's ICAAP also incorporates a capital plan that the company uses to manage its capital. Consistent with the board-approved capital risk appetite statement, Alberta Central's ICAAP quantifies risk appetite (internal operating limit (IOL)) and risk tolerance (board policy limit (BPL)) for the management of capital and to serve as a buffer to the maximum permitted provincial regulatory leverage of 15:1. Alberta Central is willing to accept some risks in certain circumstances that may result in temporary fluctuations in the borrowing multiple over the IOL, for example those as a result of fluctuations in liquidity deposits at Alberta Central. In the event that the borrowing multiple exceeds the IOL, management will advise the Audit & Finance Committee and the board of the cause and expected duration of the fluctuation. Management will develop and present any corrective action that may be necessary to the Audit & Finance Committee for recommendation and to the board for approval. Breaches of the BPL or regulatory capital requirements are not within the board's risk tolerance.

Share Capital Dividends

The payment of share capital dividends and the timing and amount of such dividends is subject to the discretion of the board of directors after consideration of Alberta Central's capital adequacy risk appetite, its capital plan which is developed as part of its ICAAP and after a review of year-end results.

Share capital dividends are determined based on a board-approved share capital dividend strategy that provides for a share dividend calculated annually based on 65% of the company's prior year before tax return on equity with a floor calculated as the prime rate of interest minus 1.5% and a cap calculated as the prime rate of interest plus 1.5%, subject to remaining within the capital risk tolerance (BPL) as defined by the ICAAP. The share dividend strategy is subject to annual review by the board of directors.

Share capital dividends are based on members' minimum monthly common share capital account balances. Share capital dividends of $6.0 million were paid in the first quarter of 2015 (2014 – $4.2 million).

Subsequent to year end, on February 24, 2016, Alberta Central's board of directors declared share capital dividends of approximately $6.5 million under the share dividend strategy described above, payable March 11, 2016. These dividends will be reflected in Alberta Central's 2016 financial results.

Other Distributions
The board of directors of Alberta Central has confirmed its intent to distribute to Alberta credit unions the gains to Alberta Central on the 2007 and 2008 sale of the CUETS credit card joint venture on a pre-tax basis, subject to any such distribution being manageable within Alberta Central's ICAAP and capital plan.

The unrealized fair value increases in ABCP have improved Alberta Central's capital levels and as a result, Alberta Central paid a patronage dividend in 2015 of $7.5 million (2014 – $10.0 million). Subsequent to year-end, on February 24, 2016, the board of directors declared patronage dividends of $8.1 million to Alberta credit unions for payment on March 11, 2016. This distribution, which completes the distribution of gains on the sale of CUETS, will be reflected in Alberta Central's 2016 financial results. Alberta Central's projected capital levels after the distribution remain within the board's capital risk appetite.

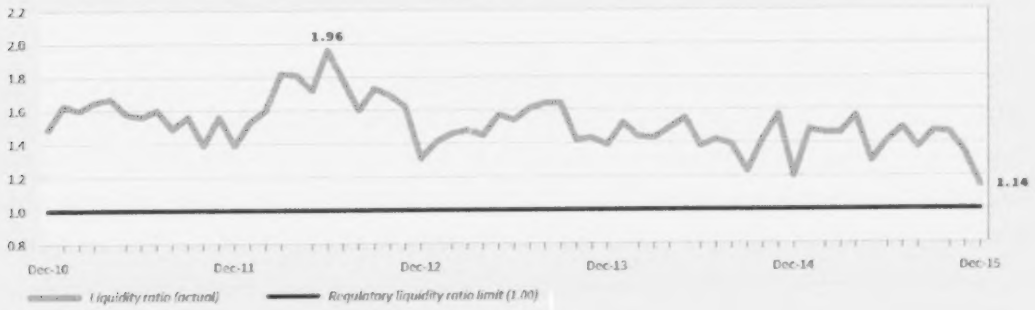
Basel III
The Basel Committee on Banking Supervision has released global regulatory standards for liquidity and capital for financial institutions, known as the Basel III framework. The Basel III capital framework sets standards that will generally require banking institutions to maintain not only additional regulatory capital, but a higher quality of regulatory capital. The extent to which these standards will be adapted and applied to provincial centrals in Canada has not yet been determined by OSFI or Alberta TBF.

Alberta credit unions were required to comply with CUDGC's new capital framework adapted from Basel III standards on a phased in basis, beginning January 1, 2013. The target capital requirement for credit unions with assets less than 5 percent of the Alberta credit union system assets is now 12.5 percent of risk weighted assets and credit unions accounting for more than 5 percent of system assets are required to hold capital of at least 13.5 percent of risk weighted assets.

Liquidity and Regulatory Capital
Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Alberta credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than nine percent of each credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a group clearing arrangement under the terms of the *Credit Union System Group Clearing Joint Venture Agreement*. A national liquidity arrangement established under the *Inter-Central Liquidity Agreement* provides emergency liquidity to a participating central in the form of a loan through a multilateral credit facility, whereby Alberta Central has committed $0.4 billion. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2015 was $1.4 billion. Alberta Central's liquidity reserves, when measured by year-end balances and throughout the year, were in excess of the requirements under both provincial legislation and the *Inter-Central Liquidity Agreement*. The chart below plots the relationship of Alberta Central's required and actual liquidity over the past five years.



Alberta Central's total liquid assets consist of the following:

Alberta Central Liquid Assets

YEAR ENDED DECEMBER 31	2015	2014
(thousands of dollars)		
Cash	15,455	66,452
Securities*		
Federal and provincial government guaranteed commercial paper**, bonds and T-bills	24,927	31,368
Bankers' acceptances	762,116	946,642
Commercial paper**	533,245	437,606
Commercial floating rate notes and bonds	289,166	155,230
Total liquid assets	1,624,909	1,637,298

** Securities balances relate to unpledged securities.*
*** Commercial paper has a rating of R-1 (low) or higher.*

Alberta Central's objectives when managing capital are:

- to balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate
- to maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- to maintain a consistently strong credit rating and investor confidence
- to comply with the capital requirements set by its regulators

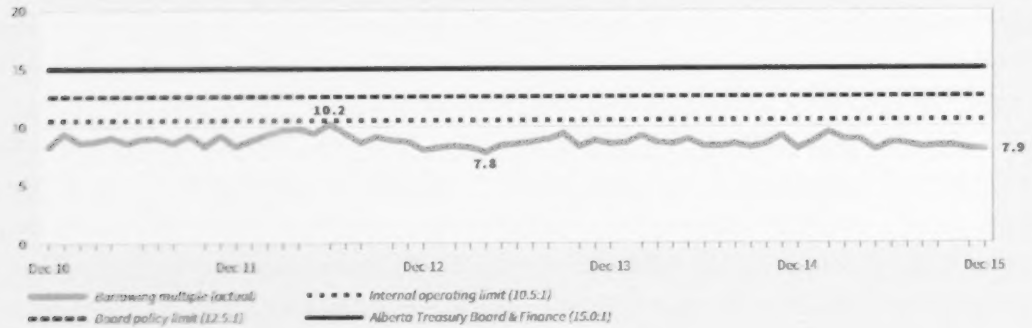
Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta TBF. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Through an ICAAP, Alberta Central has defined capital risk appetite and risk tolerance relative to the maximum permitted regulatory capital leverage. For purposes of these calculations, borrowings are comprised of members' deposits, loans and notes payable and certain derivative financial liabilities.

Alberta Central's borrowing multiple positions are outlined below.

Alberta Central – Borrowing Multiple

YEAR ENDED DECEMBER 31	2015	2014
(thousands of dollars)		
Common shares	237,835	224,928
Retained earnings	65,135	65,600
Less: deductions from capital	4,570	4,616
Total regulatory capital	298,400	285,912
Borrowing multiple	7.9:1	8.1:1
Maximum borrowing multiples:		
Internal operating limit (IOL)	10.5:1	10.5:1
Board policy limit (BPL)	12.5:1	12.5:1
Alberta Treasury Board & Finance (TBF)	15.0:1	15:1
Office of the Superintendent Financial Institutions (OSFI)	20.0:1	20:1

Alberta Central's leverage remained below both its regulatory capital and internal capital maximums as presented in the following chart.



Internal Control over Financial Reporting

There have been no changes in Alberta Central's design of internal controls and procedures over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, Alberta Central's internal control over financial reporting during the period covered by this MD&A.

Critical Accounting Estimates and Assumptions

The accompanying financial statements have been prepared in compliance with IFRS. The significant accounting policies used in preparation of the audited financial statements are described in Note 3. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Significant areas of estimation uncertainty as described in Note 2(d) include those relating to the provision for specific and non-specific credit losses.

Future Changes in Accounting Policies

Two new standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are effective for annual periods beginning after January 1, 2018. The new standards are described in Note 3(m) of the financial statements. Alberta Central is still assessing the impact on its disclosure and financial reporting.

2016 ECONOMIC OUTLOOK

The International Monetary Fund (IMF) has projected global growth of 3.4 percent in 2016, with advanced economies contributing 2.1 percent, and emerging and developing economies contributing 4.3 percent. The United States and Spain are expected to be the major contributors to the growth of advanced economies while the slowest growth is expected in Japan. In the emerging markets, Asia is anticipated to be the largest contributor to growth with Brazil having the greatest negative growth.

The Bank of Canada (BoC) projects national real Gross Domestic Product (GDP) of 1.4 percent and national total Consumer Price Index (CPI) of 1.4 percent. The market anticipates the BoC will maintain the overnight rate at 0.50 percent for the remainder of 2016.

The drop in oil prices will likely impact interprovincial migration and slow Alberta's population growth to 1.7 percent. The unemployment rate is expected to hover around 7.9 percent and average weekly wages are expected to decline by 0.8 percent in 2016. Recent market consensus forecast for Alberta's growth in real GDP is -0.2 percent.

Lower expectations in macro fundamentals are expected to have an impact on the price of real estate within the province. Although a correction is expected, examination of average weekly earnings to average housing prices reveal that Alberta is not currently overvalued relative to British Columbia and Ontario. By this metric, housing has become more affordable in Alberta since 2007/2008 on an absolute basis and has improved even more dramatically when compared to any other region of the country.

RISK MANAGEMENT

Alberta Central recognizes risk management as one of its most important responsibilities. Risk is inherent in business and when managed appropriately is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward and at the same time ensuring that Alberta Central's risk-taking is consistent with its strategic plans and board approved risk appetite. In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis.

ERM Framework

Alberta Central's ERM framework integrates its risk management process into the overall strategic management and governance structure of the organization. In 2015, Alberta Central management, in conjunction with the board of directors, continued the ongoing review of risk appetite and tolerance statements which were originally approved by the board of directors in 2012. The objective of the review and approval process is to enhance the effectiveness of existing risk appetite and tolerance statements including developing quantitative risk appetite and tolerance where it is feasible to do so. The review of risk appetite and tolerance statements is integral to the ERM framework and will continue through 2016.

In 2015, Alberta Central management developed and implemented a supplemental ERM framework specifically focused on information technology (IT) risk. While IT risk has been a component of operational risk since the inception of Alberta Central's ERM framework, management recognized the changing levels of risk caused by increasing malicious activity in the environment and responded by broadening the assessment, treatment and reporting of IT risk.

ERM Process

The ERM process is the predominant method of managing risk throughout Alberta Central. Alberta Central's ERM framework provides the policies and structure to allow it to identify, assess, mitigate where appropriate, and accept risk in accordance with its risk appetite and tolerance. This process ensures that Alberta Central is cognizant of the material risks that it faces and mitigates them as necessary until they reach an acceptable level. Alberta Central has determined that the following risk categories are most applicable to the business operations.

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit and Finance Committee. Alberta Central's ICAAP and IOL and BPL are approved by the board of directors annually. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to capital adequacy risk.

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows which can lead to losses as Alberta Central could be forced to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions.

Alberta Central ensures there is sound management of liquidity and funding risk. Alberta Central is willing to accept liquidity risks that carry a low probability of triggering reliance on contingent sources of liquidity and increased cost of funds. Alberta Central's investments are of high grade credit quality that can be pledged or sold to provide liquidity as needed, even under stressed market conditions. As a further risk management strategy, Alberta Central maintains a well-diversified funding structure and develops external sources of liquidity outside the credit union system. Cash flow forecasting, liquidity stress testing and contingency planning are key elements of the liquidity risk management framework.

Alberta Central is the liquidity manager for the Alberta credit union system, and liquidity is strictly regulated by both provincial and federal regulations and guidelines. Policy and procedures are established to comply with regulations and guidelines and are not open to interpretation and must be abided by at all times.

Alberta Central has established investment and lending policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the board of directors. Furthermore, the board of directors reviews, on a regular basis, reporting on Alberta Central's compliance with provincial regulation related to holdings of government securities or certain other qualifying liquid assets maturing within one year (refer to Liquidity and Regulatory Capital). The internal ALCO and Audit and Finance Committee review, on a regular basis, reporting on Alberta Central's current and forecasted liquidity position as well as the composition and amount of liquid assets held within the investment portfolio. Stress testing is performed to assess the amount by which the level of liquid assets could decrease while continuing to meet regulatory requirements; the results of these stress tests are reported to the ALCO and Audit and Finance Committee on a regular basis. On a biennial basis, the board of directors reviews and approves Alberta Central's *Stress Testing Policy*. The primary purpose of the *Stress Testing Policy* is to ensure that the organization maintains an adequate cushion of unencumbered high quality liquid assets held as insurance against a range of liquidity stress scenarios. This stress testing is also an important component in assessing Alberta Central's formal liquidity contingency plans. The results of the stress tests are reported to the board of directors annually. Alberta Central's *Liquidity Management Plan* is subject to annual review and approval by the board of directors and forms an important component of Alberta Central's liquidity management framework. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to liquidity risk.

Market Risk
Market risk is comprised of interest rate risk, foreign exchange risk and other price risk.

Interest Rate Risk
Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings or economic value. Alberta Central's statement of financial position is comprised of interest-bearing assets and liabilities with different maturity dates, which expose Alberta Central to interest rate risk. Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's interest rate risk policy defines specific tolerances for changes in net interest income and net economic value. Alberta Central also uses gap analysis and simulation modeling to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to interest rate risk.

Foreign Exchange Risk
Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, and monitoring and reporting requirements. Alberta Central is authorized to hold up to US$5 million, £0.5 million and €0.5 million in excess of, or short of, its foreign currency liabilities. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to foreign exchange risk.

Other Price Risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Alberta Central's portfolio consists primarily of short-term, highly liquid, high investment grade credit quality securities. Business is restricted to activities that are understood and that can be accurately valued. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. The board, on the recommendation of the Audit and Finance Committee, establishes written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board annually. The policy is approved by Alberta TBF each year before being adopted by Alberta Central. Asset liability management is the responsibility of qualified treasury personnel with management oversight from an internal management committee, the ALCO, which reviews market risk exposure at quarterly meetings. Alberta Central's most significant other price risk relates to its holdings of ABCP, as described in note 7 to the audited financial statements. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to other price risk.

Credit Risk – Commercial Lending

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Alberta Central is exposed to credit risk in its lending operations and in its investment activities. Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the board of directors. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is usually as a secondary syndication partner with credit unions; however, loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to commercial lending credit risk.

Credit Risk – Investments

Alberta Central maintains high financial stewardship standards, ensuring that the investment portfolio consists of highly liquid, high investment grade credit quality that meets Alberta Central's standards for quality including being recognized by credit rating agencies. Risk within the investment portfolio is managed by diversifying counterparty risk in the derivative portfolio and individual investments. Investments are restricted to securities that are understood and that can be accurately valued. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. In the *Investment Policy*, the board sets out key requirements for ensuring appropriate risk limits in the investment portfolio. These include investment types, minimum quality standards, authority levels, and reporting requirements. The board of directors has approved quantitative risk appetite and tolerance statements pertaining to investment credit risk.

Operational Risk

Operational risk includes risk associated with conducting the business operations of Alberta Central. It is the risk of loss arising from ineffective or failed internal processes, technology or human performance or from external events. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures and systems of internal controls. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to operational risk.

Strategic Risk
Strategic risk is the risk to Alberta Central's earnings or capital arising from business decisions or flawed implementation of those decisions. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to strategic risk.

Legal and Regulatory Risk
Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements. Alberta Central's activities are subject to reviews and periodic on-site examinations by OSFI and Alberta TBF. Alberta Central's chief compliance officer maintains a legislative and regulatory compliance management system through which legislative and regulatory requirements are annually reviewed and reported. The effectiveness of the controls and processes utilized by the chief compliance officer are annually reviewed and reported to the Audit and Finance Committee by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The board of directors receives an annual compliance report in which any deficiencies and corresponding action plans are identified. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to legal and regulatory risk.

Corporate Governance Risk
Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the board of directors and senior management. Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance. Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior management. The board of directors has approved qualitative risk appetite and tolerance statements pertaining to corporate governance risk.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

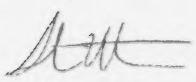
MANAGEMENT OF CREDIT UNION CENTRAL ALBERTA LIMITED (ALBERTA CENTRAL) is responsible for the integrity and fair presentation of the financial information contained in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards and, where necessary, include amounts which are based on the best estimates and judgment of management. Financial information appearing throughout this annual report is consistent with the financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance of the timely production of reliable and accurate financial information, the promotion of operational efficiency, that assets are safeguarded against loss from unauthorized use or disposition and liabilities are recognized. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct and risk management throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all major aspects of Alberta Central's operations. The internal auditors have full access to, and meet regularly with, the Audit and Finance Committee (the committee) of the board of directors to review and discuss the results of their work.

Both the federal and provincial regulators of financial institutions conduct examinations and make such enquiries into the business affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The committee, composed entirely of external directors, reviews the financial statements, including key management estimates and judgments material to the financial results before such financial statements are approved by the board of directors and submitted to the members of Alberta Central. The committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The committee is also responsible for recommending the appointment of the external auditors to the board of directors.

KPMG LLP, the independent auditors, have audited the financial statements of Alberta Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to the members. The auditors have full and unrestricted access to, and meet periodically with, the committee both in the presence and absence of management to discuss their audit and related findings.



GRAHAM WETTER
PRESIDENT AND CEO

ANNE GILLESPIE
CHIEF FINANCIAL AND RISK OFFICER

February 24, 2016

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CREDIT UNION CENTRAL ALBERTA LIMITED

We have audited the accompanying financial statements of Credit Union Central Alberta Limited, which comprise the statement of financial position as at December 31, 2015, the statements of income and comprehensive income, members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Central Alberta Limited as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
CALGARY, CANADA

February 24, 2016

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31	2015	2014
(thousands of dollars)		
Financial income		
Interest on securities	21,781	26,464
Interest on loans	9,794	9,116
	31,575	35,580
Financial expenses		
Interest on members' deposits	15,970	21,147
Interest on loans and notes payable	662	319
	16,632	21,466
Net interest income	14,943	14,114
Provision for credit losses (NOTE 9)	(1,230)	(698)
	13,713	13,416
Operating revenues (NOTE 4)	27,657	26,754
Operating expenses (NOTE 4)	(31,022)	(30,148)
Equity earnings in Celero Solutions (NOTE 8)	1,382	961
Income before the undernoted	**11,730**	**10,983**
Increase in estimated fair value of asset-backed commercial paper (ABCP) (NOTE 7)	1,000	5,500
Patronage dividends (NOTE 15)	(7,500)	(10,000)
Income before income taxes	5,230	6,483
Income taxes (NOTE 6)		
Current income tax expense	1,165	1,030
Deferred income tax expense (recovery)	(140)	344
	1,025	1,374
Net income	**4,205**	**5,109**
Other comprehensive income (loss)		
Items that will never be reclassified to net income:		
Remeasurements of net defined benefit pension asset (net of income tax (recovery) of ($12); 2014 – ($154))	(82)	(531)
Items that are or may be reclassified to net income:		
Change in unrealized gains on available-for-sale securities (net of income tax (recovery) of ($48); 2014 – $133)	(175)	482
Reclassification adjustments for realized gains on available-for-sale securities (net of income tax (recovery) of $31; 2014 – ($37))	112	(124)
	(145)	(173)
Comprehensive income	**4,060**	**4,936**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31	2015	2014
(thousands of dollars)		
Assets		
Cash and cash equivalents (NOTE 19)	15,455	66,452
Securities (NOTE 7)	2,068,736	2,094,515
Loans (NOTE 9)	552,862	414,269
Derivative financial assets (NOTE 19)	4,150	5,661
Deferred income tax asset (NOTE 6)	594	441
Other assets (NOTE 10)	29,359	24,839
	2,671,156	2,606,177
Liabilities		
Members' deposits (NOTE 12)	2,217,143	2,275,904
Accounts payable and accrued liabilities	4,653	7,926
Loans and notes payable (NOTE 13)	141,190	24,963
Derivative financial liabilities (NOTE 19)	4,150	5,661
	2,367,136	2,314,454
Members' Equity		
Common share capital (NOTE 14)	237,835	224,928
Retained earnings	65,135	65,600
Accumulated other comprehensive income	1,050	1,195
	304,020	291,723
	2,671,156	2,606,177

Commitments (NOTE 16)
Events after the reporting date (NOTE 22)

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the board of directors

ALISON STARKE
CHAIR, BOARD OF DIRECTORS

KEN MORRIS
CHAIR, AUDIT AND FINANCE COMMITTEE

STATEMENT OF MEMBERS' EQUITY

	SHARE CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
(thousands of dollars)				
Balance as at January 1, 2014	212,281	63,835	1,368	277,484
Net income	—	5,109	—	5,109
Change in unrealized gains on available-for-sale securities (net of income tax of $96)	—	—	358	358
Remeasurements of net defined benefit pension asset (net of income tax (recovery) of ($154))	—	—	(531)	(531)
Issue of share capital (NOTE 14)	12,647	—	—	12,647
Share capital dividends (net of income tax (recovery) of ($845)) (NOTE 15)	—	(3,344)	—	(3,344)
Balance as at December 31, 2014	**224,928**	**65,600**	**1,195**	**291,723**
Net income	—	4,205	—	4,205
Change in unrealized gains on available-for-sale securities (net of income tax (recovery) of ($17))	—	—	(63)	(63)
Remeasurements of net defined benefit pension asset (net of income tax (recovery) of ($12))	—	—	(82)	(82)
Issue of share capital (NOTE 14)	12,907	—	—	12,907
Share capital dividends (net of income tax (recovery) of ($1,304)) (NOTE 15)	—	(4,670)	—	(4,670)
Balance as at December 31, 2015	**237,835**	**65,135**	**1,050**	**304,020**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2015	2014
(thousands of dollars)		
Cash resources provided by (used in):		
Operating activities		
Net income	4,205	5,109
Adjustments for:		
Depreciation, amortization and loss on disposal of capital assets	993	1,008
Income tax expense (NOTE 6)	1,025	1,374
Increase in estimated fair value of ABCP (NOTE 7)	(1,000)	(5,500)
Accrued interest on impaired loans	(70)	(168)
Provision for credit losses (NOTE 9)	1,230	698
Interest income on securities	(21,781)	(26,464)
Interest expense on loans and notes payable	662	319
Equity earnings in Celero Solutions (NOTE 8)	(1,382)	(961)
	(16,118)	(24,585)
Changes in non-cash operating components		
Accounts receivable and other assets	(1,694)	1,223
Accounts payable and accrued liabilities	(2,748)	2,269
Increase (decrease) in members' deposits	(58,761)	1,674
Decrease (increase) in loans, net of repayments	(139,753)	(92,368)
Income taxes paid	(386)	(329)
	(219,460)	(112,116)
Financing activities		
Increase (decrease) in loans and notes payable	116,240	(11)
Interest paid on loans and notes payable	(675)	(309)
Issuance of share capital, net of redemptions	12,907	12,647
Payment of share capital dividends	(5,974)	(4,189)
	122,498	8,138
Investing activities		
Proceeds from sale of securities, net of purchases	26,909	84,342
Interest received on securities	21,506	27,632
Distribution of Celero Solutions' prior year net income	656	12
Return of capital on investment in Celero Solutions	323	231
Acquisition of capital and intangible assets	(3,429)	(609)
	45,965	111,608
Increase (decrease) in cash resources	(50,997)	7,630
Cash and cash equivalents, beginning of year	66,452	58,822
Cash and cash equivalents, end of year	15,455	66,452

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

Credit Union Central Alberta Limited (operating as Alberta Central) is a limited liability company and is incorporated and domiciled in Canada. Alberta Central is governed by the *Credit Union Act of Alberta* and is also subject to the provisions of the *Cooperative Credit Associations Act of Canada*.

The address of its registered office is:
350N, 8500 Macleod Trail S.E
Calgary, Alberta

Alberta Central is the liquidity and payments provider and trade association for credit unions in Alberta. Alberta Central's financial statements comprise the accounts of Alberta Central and its proportionate share of the assets, liabilities, revenue and expenses of its joint arrangement, Credit Union Payment Services (CUPS) (Note 3h). CUPS provides payment services and related support services to the members of its owners, Alberta Central (50 percent), and SaskCentral (50 percent) as well as to other organizations. The financial statements also comprise Alberta Central's equity share of the income of its significantly influenced associate, Celero Solutions (Celero). Celero provides information technology services to credit unions, its owners, Alberta Central (31.4 percent), SaskCentral (31.4 percent), Manitoba Central (31.4 percent) and Concentra Financial Services Association (5.8 percent), and to other organizations (Note 8). The registered place of business for both CUPS and Celero is Calgary, Alberta.

2. BASIS OF PREPARATION

a) Statement of compliance
Alberta Central prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

These financial statements have been approved for issue by the board of directors on February 24, 2016.

b) Basis of measurement
The financial statements have been prepared under the historical cost basis except for the following:

- held for trading financial instruments are measured at their fair value
- available-for-sale financial assets are measured at their fair value, except as described in Note 20
- defined benefit pension plan assets and liabilities are measured at their present value

c) Currency
The financial statements are presented in Canadian dollars, which is also Alberta Central's functional currency.

2. BASIS OF PREPARATION (CONTINUED)

d) Significant estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and assumptions are evaluated on a continuous basis, and are based on past experiences and other factors, including expectations with regard to future events. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year are described below:

Fair value of financial instruments

The fair value of financial instruments where no active market exists, or where quoted prices are not otherwise available, is determined by using valuation techniques. In these cases, the fair value is estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions regarding credit risk, market liquidity and timing of future cash flows. The use of valuation techniques in calculating the fair value of Alberta Central's securities is discussed further in Note 20.

Provision for credit losses

A loan loss provision is estimated for both specific loans that are individually significant (specific loan loss provision) as well as the collective portfolio (non-specific loan loss provision). In assessing whether specific and non-specific loan impairment exists, Alberta Central management makes estimates and assumptions as to whether there is any observable data indicating an impairment trigger and whether the loss event has an impact on the estimated future cash flows of the loan.

Furthermore, estimates and assumptions are made by management in determining the specific and non-specific loan loss provisions. To determine the specific loan loss provisions, management must make assumptions regarding the creditworthiness of individual borrowers, the timing of receipt of future cash flows (repayment from the borrowers), and estimate the net realizable value and timing of the realization of the collateral underlying the loan. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in industry and economic conditions. Refer to Note 9 for the carrying value of the allowance for credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarized below and have been consistently applied to all years presented.

a) Revenue recognition

Interest income on loans and securities is recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the expected life of the financial asset. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount. Interest on impaired financial assets continues to be recognized through the unwinding of the discount. Membership dues income is recognized on a straight-line basis over the year. Other revenue is recognized as services are provided, when the amount can be reliably measured and deemed collectible.

b) Provision for credit losses

Alberta Central reviews its financial assets, specifically its commercial loan and mortgage portfolio, and securities, for impairment on a quarterly and annual basis. A financial asset or group of financial assets is impaired if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had an impact on the estimated future cash flows of the asset(s) and the impact can be reliably estimated. Alberta Central first assesses whether objective evidence of impairment exists individually for assets that are individually significant, and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is grouped with others that have similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans

Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan, and loan portfolio, level. A specific provision is established by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. The specific provision is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the provision for credit losses in the statement of income and comprehensive income.

A non-specific provision is established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio for which a specific provision cannot yet be determined. A non-specific provision is based on observable data such as historical credit loss experience, known portfolio risks, and current economic conditions. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in economic conditions. Delinquency rates are regularly benchmarked against actual outcomes to ensure that management's assumptions regarding delinquency remain appropriate. The non-specific loan loss provision is recognized through the use of an allowance account and is recognized in the provision for credit losses in the statement of income and comprehensive income.

Alberta Central writes off amounts charged to the allowance account against the carrying amount of an impaired loan, either partially or in full, when there is no realistic prospect of future recovery in respect to the amounts written off. When loans are secured, this is generally when all collateral has been liquidated and no future cash flows are expected.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the loan or allowance. The amount of the reversal is recognized in the provision for credit losses on the statement of income and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities
Alberta Central periodically assesses impairment of all of its securities, except those classified as held for trading. Management considers significant financial difficulty of the issuer, the disappearance of an active market for a security due to financial difficulties, or a significant or prolonged decline in the fair value of an available-for-sale equity security below its cost as objective evidence of impairment resulting in the recognition of an impairment loss. For securities measured at amortized cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate. For securities measured at cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar security. For securities classified as available-for-sale, the amount of the cumulative loss in fair value recognized in accumulated other comprehensive income and reclassified to net income is the difference between the security's acquisition cost and current fair value, less any previously recognized impairment.

Impairment losses can only be reversed on securities measured at amortized cost and debt securities classified as available-for-sale, and only when the decrease in impairment loss can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal is recognized in net income.

c) Personnel

Short-term employee benefits
Short-term employee benefits include all benefits and payments made on behalf of Alberta Central personnel including wages, salaries, vacation, medical and dental benefits and short-term incentive compensation, and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans provided Alberta Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Post-employment benefits
Alberta Central's post-employment benefit program consists of both a defined contribution and defined benefit pension plan.

i. Defined contribution pension plan
Alberta Central contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a pension plan under which Alberta Central pays fixed contributions to a third party and has no legal or constructive obligation to pay further amounts. The contributions are recognized as personnel expense when they are due in respect of service rendered to the end of the reporting period.

ii. Defined benefit pension plan
The defined benefit pension plan is a pension plan for certain executive management. A defined benefit pension plan defines an amount of pension benefit that an executive will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The amount of the defined benefit asset or liability recognized in the statement of financial position is equal to the present value of the defined benefit obligation as at the year-end reduced by the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars, and that have terms to maturity approximating the terms of the related pension asset or liability. Re-measurements of the net defined benefit asset or liability, which comprise actuarial gains (losses) and the return on plan assets, are recognized immediately in other comprehensive income in the statement of income and comprehensive income. Alberta Central determines the net interest income or expense on the net defined benefit asset or liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset or liability. The net interest income or expense is recognized in interest on members' deposits and current service costs are recognized in personnel expense within operating expenses in the statement of income and comprehensive income.

Long-term employee benefits
Alberta Central's obligation under a long-term incentive plan for executive management is accrued as services are rendered.

d) Income taxes
Income tax expense comprises both current and deferred income tax.

Current income tax
Current income tax is the expected tax payable (receivable) on the taxable income for the year. It is calculated on the basis of the applicable tax law in Alberta using rates enacted or substantially enacted at year-end. Current income tax is recognized as an expense (recovery) in the statement of income and comprehensive income except to the extent it relates to items that are charged (credited) in other comprehensive income or directly to equity. In such circumstances, it is charged (credited) to other comprehensive income or equity.

Deferred income tax
Alberta Central follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences arising between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are calculated using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse.

Deferred tax assets are recognized for unused tax losses, tax credits and other temporary differences when it is probable that future taxable income will be available against which these temporary differences can be utilized.

Any changes in deferred tax assets or liabilities during the year are reflected in income tax expense on the statement of income and comprehensive income unless they relate to items that are recognized in other comprehensive income, accumulated other comprehensive income, or equity.

e) Foreign currency translation
Transactions denominated in a foreign currency are translated into Canadian dollars using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the closing rate as at the reporting date. Foreign currency differences arising on translation of foreign currency transactions and monetary items are recognized in net income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Cash and cash equivalents

Cash and cash equivalents consist of cash and restricted cash pledged as described in Note 19.

g) Investment in Celero

Alberta Central uses the equity method to account for Celero over which it exercises significant influence. Significant influence is the power to participate in, but not control or jointly control, the financial and operating policy decisions of the investee. Under this method, the investment is initially recognized at cost and is adjusted for Alberta Central's share of income and distributions received from the investee. The investment is written down to recognize losses, if any, in its value. Alberta Central assesses impairment of its investment in Celero on an annual basis and losses, if any, are recognized in the statement of income and comprehensive income.

When Alberta Central's share of losses in Celero equals or exceeds its interest in the investment, Alberta Central does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment.

For transactions and events sharing similar circumstances, consistent accounting policies are used to ensure comparability when preparing the financial statements. Financial information for Celero is included in Note 8.

h) Investment in CUPS

Alberta Central has a 50 percent interest in the CUPS joint arrangement. Alberta Central has joint control over the CUPS joint arrangement as it has 50 percent representation in the governance structure and all decisions require a majority vote. As CUPS is legally structured as an unincorporated entity, its assets and liabilities are primarily those of the parties to the joint arrangement. Accordingly, Alberta Central accounts for its investment in CUPS as a joint operation using the proportionate consolidation method. Under this method, Alberta Central's proportionate share of the joint operation's assets, liabilities, revenue and expenses is combined with similar items, line by line, in its financial statements.

Intercompany gains on transactions between Alberta Central and the joint operation are eliminated to the extent of Alberta Central's interest in the joint operation. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

i) Capital and intangible assets

Capital assets are recognized at historical cost less accumulated depreciation. Intangible assets consist of acquired operating software assets recognized at historical cost less accumulated amortization. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Computer hardware	3 years
Equipment	3 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021
Intangible assets	3-5 years

Depreciation commences on computer hardware and equipment once the assets are available for use. The residual values and useful lives of the capital assets are reviewed, reassessed and adjusted, if appropriate, each reporting period.

Capital and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

j) Dividends

Share dividends on Alberta Central's member shares are recognized in equity in the period in which they are declared by Alberta Central's board of directors.

Patronage dividends are recognized in net income, in the period in which they are declared by Alberta Central's board of directors.

k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the statement of income and comprehensive income on a straight-line basis over the period of the lease.

l) Financial assets and liabilities

All financial assets are classified as held for trading, available-for-sale, held to maturity or loans and receivables. All financial liabilities are classified as held for trading or other financial liabilities. Management determines the classification of its instruments at initial recognition. Financial assets and liabilities are recognized when Alberta Central becomes a party to the contractual provisions of the instrument. Alberta Central uses settlement date accounting for regular-way trades, which are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Held for trading

A financial asset or liability must be classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative instruments must be classified as held for trading and measured at fair value unless they are designated as an effective hedging instrument. Alberta Central has no derivatives designated as accounting hedges. Alberta Central may designate any financial asset or liability as held for trading if certain specified conditions are met.

Alberta Central has classified cash and cash equivalents, certain securities, derivative financial assets and derivative financial liabilities as held for trading. Certain securities have been designated as held for trading as Alberta Central manages and evaluates the performance of these securities together on a fair value basis, and information about the group of securities is provided internally on that basis to key management. All financial assets and liabilities classified as held for trading are initially and subsequently measured at fair value with gains (losses) recognized in net income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale
Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Alberta Central has classified certain securities as available-for-sale.

Financial assets classified as available-for-sale are initially and subsequently measured at fair value with unrealized gains (losses) recognized in other comprehensive income, except for impairment losses, which are recognized in net income. Equity securities classified as available-for-sale which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost. Their fair value cannot be reliably measured when the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. Changes in fair value are recorded in accumulated other comprehensive income in the statement of financial position. When unrealized gains (losses) become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to net income.

Held to maturity
Held to maturity financial assets are those with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If Alberta Central were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available-for-sale. Alberta Central has not classified any financial assets as held to maturity as at December 31, 2015.

Held to maturity financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Alberta Central has classified its accounts receivable, items in transit, certain securities and loans as loans and receivables.

Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Other financial liabilities
Financial liabilities that do not fall under the held for trading category are classified as other financial liabilities. Alberta Central has classified its accounts payable and accrued liabilities, members' deposits, and loans and notes payable as other financial liabilities.

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Accumulated other comprehensive income
Accumulated other comprehensive income is included on the statement of financial position as a separate component of members' equity and includes re-measurements of the net defined benefit pension asset or liability and unrealized gains (losses) on available-for-sale securities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction costs
Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading and are capitalized upon initial recognition for all other financial instruments.

Determination of fair value
For financial instruments traded in an active market, fair value is determined by reference to quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where independent quoted market prices are not available, fair value is determined by reference to recent arm's length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of other valuation techniques.

With the use of valuation techniques, fair value is estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the date of the statement of financial position. Alberta Central uses valuation techniques primarily to value its derivatives and asset backed commercial paper.

Derecognition
Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of ownership of the assets have been transferred. Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

m) Standards and interpretations issued but not yet effective
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing these financial statements. Alberta Central is still assessing the impact on its disclosure and financial reporting. The standards that may be relevant to Alberta Central are described below.

IFRS 9 – "Financial instruments"
This new standard is the result of the IASB's project to replace IAS 39 *"Financial instruments: recognition and measurement"*. The new standard introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. Furthermore IFRS 9 brings together all three phases of the financial instruments project:

- Classification and measurement
- Impairment (expected loss model)
- Hedge accounting

IFRS 9 introduces a new model for the measurement of impairment losses on all financial instruments subject to impairment accounting. The expected loss impairment model replaces the current incurred loss model and is based on a forward looking approach which includes earlier recognition of losses. An amount equal to 12 months expected credit losses will be recorded for assets where there has not been a significant increase in credit risk since initial recognition. An amount equal to the lifetime expected losses will be recorded for assets where there has been a significant increase in credit risk since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The final version of IFRS 9 was issued in 2014, with implementation effective for annual periods beginning on or after January 1, 2018. Alberta Central does not plan to adopt this standard early and is assessing the impact on Alberta Central's financial reporting and disclosure.

IFRS 15 – "Revenue from Contracts with Customers"
The new standard is a result of a joint project between the IASB and the Financial Accounting Standards Board (FASB) and is converged with FASB ASC Topic 606. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It establishes a comprehensive framework for determining if, how much and when revenue is recognized.

The standard was issued by the IASB in 2014. During the year, the IASB confirmed a one-year deferral of the effective implementation date to January 1, 2018. Alberta Central does not plan to early adopt this standard and is assessing the impact on Alberta Central's financial reporting and disclosure.

4. OPERATING REVENUES AND OPERATING EXPENSES

	2015	2014
Operating revenues		
Payment services	11,935	11,469
Member dues	6,308	6,021
Financial and ancillary services	4,459	4,444
Other	4,955	4,820
	27,657	**26,754**
Operating expenses		
Personnel	13,304	12,789
Administration and other	9,854	9,672
Property and equipment	5,097	5,109
Organization	2,767	2,578
	31,022	**30,148**

Included within financial and ancillary services operating revenue is $649 (2014 – $541) of foreign exchange gains. Operating expenses include $9,024 ((2014 – $9,575) relating to Alberta Central's share of CUPS' operating expenses (Note 3h).

Personnel expenses consist of the following:

	2015	2014
Salaries and other short-term employee benefits	11,807	12,078
Post-employment benefits	763	702
Long-term employee benefits	385	(56)
Termination benefits and retiring allowances	349	65
	13,304	**12,789**

5. PENSION PLANS

a) Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $530 (2014 – $524) is included in personnel expense (Note 4).

b) Defined benefit pension plan

Alberta Central also contributes annually to a defined benefit pension plan for certain executive management which qualifies as a retirement compensation arrangement under the *Income Tax Act*. This plan is fully funded by Alberta Central. Concentra Trust is the custodian of the plan. An actuarial valuation of the defined benefit obligation was performed as of December 31, 2013, and extrapolated to December 31, 2015.

The fair value of plan assets and defined benefit obligation is as follows:

	2015	2014
Fair value of plan assets, end of year	4,289	4,172
Defined benefit obligation, end of year	3,900	3,727
Pension surplus (NOTE 10)	**389**	**445**

The amounts recognized in the statement of income and comprehensive income on a before-tax basis are as follows:

	2015	2014
Included in net income:		
Current service cost	(216)	(168)
Net interest income	19	52
	(197)	**(116)**
Included in other comprehensive income:		
Actuarial gains (losses) arising from experience adjustments and changes in financial assumptions	66	(487)
Remeasurements of net defined benefit pension asset	(160)	(198)
	(94)	**(685)**

6. INCOME TAXES

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 21.8 percent (2014 – 20.2 percent). Income taxes calculated at substantively enacted rates differ from the provision included in the statement of income and comprehensive income for the following reasons:

	2015	2014
Income taxes at substantively enacted rates	1,138	1,312
Increase (decrease) in income taxes resulting from:		
Impact of rate changes on temporary differences	(91)	(35)
Non-deductible amounts	23	(3)
Other	(45)	100
Provision for income taxes	**1,025**	**1,374**

The deferred income tax asset is attributable to the following:

	2015	2014
Deferred income tax asset:		
Depreciation and amortization	398	296
Charges for non-specific loan impairment	385	297
Other	—	(6)
	783	587
Deferred income tax liability:		
Post-employment benefits and other	(189)	(146)
Net deferred income tax asset	**594**	**441**

The deferred income tax expense (recovery) included in the statement of income and comprehensive income comprises the following temporary differences:

	2015	2014
Charges for loan impairment	(88)	287
Depreciation and amortization	(103)	75
Post-employment benefits	57	(54)
Other	(6)	36
Deferred income tax expense (recovery)	**(140)**	**344**

7. SECURITIES

	CLASSIFICATION	2015	2014
Government	Available-for-sale	260,761	245,190
	Held for trading	—	25,080
		260,761	270,270
Corporate	Available-for-sale	1,603,687	1,615,353
	Held for trading	193,820	198,632
		1,797,507	1,813,985
Credit Union Central of Canada (CUCC)	Available-for-sale	632	629
Central 1 subordinated debt	Loans and receivables	6,000	6,000
Mortgage pooling funds	Loans and receivables	273	343
		2,065,173	2,091,227
Totals	Available-for-sale	1,865,080	1,861,172
	Held for trading	193,820	223,712
	Loans and receivables	6,273	6,343
		2,065,173	2,091,227
Accrued interest receivable		3,563	3,288
		2,068,736	**2,094,515**

As at December 31, 2015, $251,072 (2014 – $250,720) of securities were pledged to Central 1 under the terms of the *Credit Union System Group Clearing Agreement* (Note 13) and are restricted from Alberta Central's use.

Alberta Central's mortgage pooling funds represent an investment in Canadian-based residential mortgages and are regulated under the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* which includes guidelines on financial reporting. All mortgages in the pool are Canada Mortgage and Housing Corporation (CMHC) insured mortgages. The mortgages were acquired by Alberta Central with the following amortization periods:

Amortization Period	Percent of Total
10-14 years	0.4 percent
15-19 years	5.3 percent
20-24 years	23.0 percent
25-29 years	42.2 percent
30-34 years	27.5 percent
35 years and greater	1.6 percent

As all mortgages within the mortgage pool are insured, an economic downturn would have a limited impact on the carrying value of the mortgage pool.

7. SECURITIES (CONTINUED)

As at December 31, 2015, corporate held for trading securities included non-bank and bank sponsored ABCP as outlined in the table below.

	FACE VALUE RECEIVED UPON RESTRUCTURING	SOLD, DISCHARGED OR PRINCIPAL REPAID	FACE VALUE AS AT DECEMBER 31, 2015	FACE VALUE AS AT DECEMBER 31, 2014	EXPECTED MATURITY	DBRS RATING
Non-bank sponsored ABCP						
MAV 2 notes:						
Class A-1	98,577	(320)	98,257	98,257	2017	AA (low)
Class A-2	56,334	—	56,334	56,334	2017	A
Class B	10,226	—	10,226	10,226	2017	Unrated
Class C	5,107	(5,107)	—	—	2017	Unrated
Tracking notes	9,953	(7,840)	2,113	2,242	2056	Unrated
	180,197	(13,267)	166,930	167,059		
MAV 3 tracking notes	41,895	(38,232)	3,663	5,210	2017	Unrated to AAA
Non-bank sponsored ABCP	222,092	(51,499)	170,593	172,269		
Bank Sponsored ABCP	22,793	(11,871)	10,922	14,823	2016	AA(low) to AAA
Total ABCP	**244,885**	**(63,370)**	**181,515**	**187,092**		
Accrued interest			2,362	2,503		
Cumulative fair value adjustment			(16,835)	(17,835)		
Fair value			**167,042**	**171,760**		

All of the ABCP investments have been designated as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis, using bid pricing, where available. As a result of reduced market liquidity for MAV 2 notes, comparison of the most recent bid price to adjusted proxy bid prices for similar instruments with similar maturity dates was used. Alberta Central recorded an increase in the estimated fair value of ABCP during the year of $1,000 (2014 – $5,500) in the statement of income and comprehensive income.

At the dates of acquisition, the ABCP notes were short-term investments rated R1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, they were restructured into longer-term floating-rate notes reflecting the maturity of the related underlying assets.

The MAV 2 notes are backed by synthetic collateralized debt obligations or a combination of traditional assets and synthetic collateralized debt obligations. The notes have levels of subordination relative to potential losses and principal and interest payments. MAV 2 also contains tracking notes for ineligible assets (United States (US) sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Certain MAV 3 notes are backed solely by traditional assets while other MAV 3 notes are backed by ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

7. SECURITIES (CONTINUED)

Alberta Central holds two bank-sponsored ABCP notes, Superior Trust and Apex Trust. These notes have an exposure to commercial mortgages and leveraged super senior tranches of mortgage-backed securities.

During the year, Alberta Central received principal payments of $5,577 (2014 – $1,062) and earned interest of $1,100 (2014 – $1,533) on ABCP.

8. INVESTMENT IN CELERO

Alberta Central has a 31.4 percent interest in Celero (Note 10). While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes as Alberta Central does not have joint control. Joint control is not achieved as Alberta Central holds two of seven positions in Celero's governance structure. Accordingly, Alberta Central accounts for its investment in Celero using the equity method. Under the terms of the *Joint Venture Agreement* and as directed by Celero's governing body, the net income of Celero is distributed to (contributed by) Alberta Central in proportion to its ownership interest in Celero. During the year, one of Alberta Central's partners in the joint venture notified Celero of its intention to withdraw as an owner of the joint venture effective January 1, 2016. On December 23, 2015, Celero's governing body approved a resolution to redistribute the departing joint venturer's ownership interest equally between the remaining parties, increasing Alberta Central's ownership interest in Celero to 33.3% effective January 1, 2016.

Summarized financial information of Celero is as follows:

	2015	2014
Current assets	20,036	20,341
Non-current assets	19,133	21,204
Current liabilities	15,704	27,225
Non-current liabilities	11,168	3,308
Revenue	82,868	78,806
Income before equity income in Everlink	3,725	2,090
Net income and comprehensive income	4,404	3,063

The movement in Alberta Central's interest in Celero during the year was as follows:

	2015	2014
Carrying value at January 1	3,478	2,760
Share of Celero's net income and comprehensive income	1,382	961
Share of distribution of Celero's prior year net income and comprehensive income	(656)	(12)
Return of capital	(323)	(231)
Carrying value as at December 31	**3,881**	**3,478**

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations.

9. LOANS

	2015	2014
Credit unions	345,127	220,179
Commercial loans and mortgages	199,221	184,755
Employee mortgages	4,650	5,144
Celero (NOTE 17)	3,611	4,082
Cooperatives	1,656	2,550
	554,265	417,710
Accrued interest receivable	1,094	836
	555,359	418,546
Less allowances on commercial loans and mortgages:		
Specific	(997)	(3,177)
Non-specific	(1,500)	(1,100)
	552,862	**414,269**

Alberta Central's commercial loans and mortgages portfolio includes $5,643 (2014 – $9,216) in impaired loans. The following is a reconciliation of the allowance on impaired commercial loans and mortgages:

	2015	2014
Balance, beginning of the year	4,277	18,517
Increase in specific loan loss provision	830	768
Increase (decrease) in non-specific loan loss provision	400	(70)
Write-off loan principal and accrued interest	(3,010)	(14,938)
Balance as at December 31	**2,497**	**4,277**

Included in accrued interest receivable is $340 (2014 – $270) of interest on impaired and past due loans.

Employee mortgages are Alberta-based primary residence mortgages. All mortgages were originated (not acquired) by Alberta Central with an amortization period of 25 years (2014 – 25 years). CMHC insured mortgages comprise $1,405 (2014 – $2,182) and 30.2 percent (2014 – 42.4 percent) of employee mortgages. The average loan-to-value ratio for newly originated uninsured employee mortgages during 2015 was 70.1 percent (2014 – 71.9 percent). As employee mortgages do not exceed a loan to value ratio of 80 percent at origination of the mortgage, an economic downturn would have a limited impact on their carrying value.

10. OTHER ASSETS

	2015	2014
Items in transit	19,369	16,295
Investment in Celero - equity method (NOTE 8)	3,881	3,478
Accounts receivable and prepaid expenses	1,698	3,035
Capital and intangible assets (NOTE 11)	4,022	1,586
Pension surplus (NOTE 9)	389	445
	29,359	**24,839**

11. CAPITAL AND INTANGIBLE ASSETS

	EQUIPMENT	LEASEHOLD IMPROVEMENTS	FURNITURE	INTANGIBLE ASSETS	TOTAL
As at December 31, 2015					
Cost	3,931	6,785	1,344	5,831	17,891
Accumulated depreciation/amortization	(3,438)	(4,817)	(171)	(5,443)	(13,869)
Net book value	**493**	**1,968**	**1,173**	**388**	**4,022**
As at December 31, 2014					
Cost	3,572	5,795	2,418	5,890	17,675
Accumulated depreciation/amortization	(3,202)	(5,299)	(2,276)	(5,312)	(16,089)
Net book value	**370**	**496**	**142**	**578**	**1,586**

Depreciation/amortization expense of $841 (2014 – $1,008) is included in property and equipment expense (Note 4). During the year, capital purchases of $3,429 (2014 – $609) were made. Asset retirements totaled $3,211 (2014 – $nil) resulting in losses on disposal of $152 (2014 – $nil).

12. MEMBERS' DEPOSITS

	2015	2014
Current accounts and demand deposits	164,881	121,712
Money market deposits	332,527	462,632
Statutory liquidity deposits	1,717,210	1,689,166
	2,214,618	2,273,510
Accrued interest payable	2,525	2,394
	2,217,143	**2,275,904**

Alberta credit unions are required by Alberta Central's bylaws to maintain nine percent of their liabilities in statutory liquidity deposits and common share capital of Alberta Central.

(Thousands of dollars except where otherwise indicated)

13. LOANS AND NOTES PAYABLE

	2015	2014
Commercial paper	109,958	24,963
Line of credit	31,232	—
	141,190	**24,963**

Alberta Central is authorized to issue commercial paper to a maximum of $450,000. Amounts bear interest at a weighted-average rate of 0.89 percent (2014 – 1.27 percent) and have a weighted average term of 26 days (2014 – 90 days). As at December 31, 2015, commercial paper of $109,958 (2014 – $24,963) was issued and outstanding.

Under an agreement with Central 1, effective July 6, 2011, Alberta Central has a line of credit to a maximum of $100,000. Pursuant to the terms of the *Credit Union System Group Clearing Agreement* (Note 19), Alberta Central is obliged to pledge securities to Central 1 as the group clearer with a Bank of Canada collateral value equal to at least one percent of Alberta credit union system assets to secure this line of credit (Note 7). Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank. The total interest paid on the line of credit during the year was $3 (2014 – $nil).

14. COMMON SHARE CAPITAL

Authorized:
- Common shares held by Class A voting members – unlimited number at 5 dollars per share
- Common shares held by Class B non-voting members – unlimited number at 5 dollars per share

Issued and outstanding:
- Common shares held by Class A voting members – 47,313,504 shares (2014 – 44,732,147)
- Common shares held by Class B non-voting members – 253,495 shares (2014 – 253,515)

Common shares are held by Alberta credit unions (Class A members) and other non-credit union organizations (Class B members).

	2015	2014
Common shares held by Class A members:		
Balance, beginning of year	223,661	211,014
Issued, for cash (2,581,357 shares)	12,907	12,647
Balance as at December 31	236,568	223,661
Common shares held by Class B members:		
Balance, beginning of year	1,267	1,267
Redeemed, at par (20 shares)	—	—
Balance as at December 31	1,267	1,267
Total common shares	**237,835**	**224,928**

Alberta Central's bylaws require member credit unions to maintain a minimum of one percent of their assets as common share capital in Alberta Central.

14. COMMON SHARE CAPITAL (CONTINUED)

Alberta Central's bylaws require that Class B members maintain common shares in Alberta Central, the total par value of which is not less than $100 dollars.

All requests for redemption of common share capital require approval from Alberta Central's board of directors. The redemption price of all common shares is their par value of five dollars per share.

15. DIVIDENDS

Share capital
Share capital dividends of $5,974 were declared and paid based on Alberta Central's prior year results (2014 – $4,189). Both Class A and B members are eligible to participate in the receipt of share capital dividends from Alberta Central.

Patronage
Patronage dividends (bonus interest) of $7,500 (2014 – $10,000) were declared and paid based on credit unions' statutory liquidity deposits in Alberta Central.

All dividends require approval from Alberta Central's board of directors.

16. COMMITMENTS

Alberta Central is party to a non-cancellable premises lease agreement ending December 31, 2021 which provides a renewal option for a further five years on the same terms and conditions. The future minimum lease payments for base rent under the non-cancellable operating lease are as follows:

One year or less (2016)	1,385
Later than one year and no later than five years (2017 - 2020)	5,760
Later than five years (2021)	1,458
Total future obligations under premises operating lease to 2021	8,603

Alberta Central's lease payments are recognized as an expense in the year within property and equipment expense (Note 4).

	2015	2014
Minimum lease payments	1,645	1,585
Contingent rent	1,515	1,613
Total	**3,160**	**3,198**

Contingent rent payments on the premises lease are based on a pro rata share of the operating costs of the lease premises, which may increase or decrease annually.

Alberta Central has a non-cancellable premises sublease agreement with Celero ending December 31, 2021 for future minimum lease receipts for base rent totaling $2,213 (2014 – $2,813).

17. RELATED PARTY TRANSACTIONS

Alberta Central has transactions with various related parties throughout the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Transactions with CUPS

During the year, Alberta Central charged CUPS various administrative, property rental, interest and float fees totaling $4,233 (2014 – $4,279). During the year, CUPS charged Alberta Central various interest, distribution and administrative fees totaling $559 (2014 – $569).

CUPS has a line of credit at Alberta Central to a maximum of $10,000, which bears interest at the Canadian prime business rate. As at December 31, 2015, CUPS had drawn $nil (2014 – $nil) on the line of credit.

On June 1, 2015, Alberta Central entered into a forward contract to purchase $200 USD from CUPS, expiring on December 31, 2016 (Note 19).

b) Transactions with Celero

During the year, Alberta Central charged Celero $3,148 (2014 – $3,294) for various administrative, accounting and facilities services. Celero charged Alberta Central $1,402 (2014 – $1,290) for information technology services. As at December 31, 2015, Alberta Central had a net payable of $146 to Celero (2014 – $482 receivable) in respect of operating activities.

Under a *Joint Venture Lender Agreement* dated December 17, 2007, Celero has a line of credit facility with Alberta Central to a maximum of $10,000 with interest payable monthly at the Canadian prime business rate. Under the terms of the same agreement, Celero also has a $5,000 overdraft facility with Alberta Central bearing interest at the Canadian prime business rate. Alberta Central is the lead lender of the above-noted loan facilities; however, SaskCentral and Manitoba Central, as joint venture partners, share in the provision and repayment of funds for these facilities in proportion to their ownership interest. As at December 31, 2015, Celero had drawn $nil (2014 – $nil) on the line of credit facility and $nil (2014 – $nil) on the overdraft facility. The facilities are secured by a *General Security Agreement* over all assets of Celero.

Loans of $3,611 (2014 – $4,082) (Note 9) are repayable from Celero to Alberta Central with minimum annual principal payments of $450. Interest is payable on the principal balance at the Canadian prime business rate.

Everlink has entered into agreements with Alberta Central, consisting of a line of credit to a maximum of $2,000 and authorized overdraft facilities to a maximum of $6,500. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. As at December 31, 2015, Everlink had drawn $nil (2014 – $nil) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As at December 31, 2015, Servus Credit Union Ltd. (Servus) owned 59.4 percent (2014 – 58.6 percent) of the total outstanding common shares held by Class A members of Alberta Central. Due to the governance structure of Alberta Central, management has determined that Servus has significant influence, but not control, over Alberta Central. The outstanding balances with Servus included in Alberta Central's statement of financial position and statement of income and comprehensive income are as follows:

17. RELATED PARTY TRANSACTIONS (CONTINUED)

	2015	2014
Loans	160,000	205,288
Members' deposits	842,372	1,081,312
Membership dues rebate accrual *	485	413
Common share capital	140,439	131,164
Interest income on loans	2,257	1,547
Interest expense on members' deposits	8,185	10,439
Membership dues and other income	6,707	6,746
Share capital dividends	3,479	2,406
Patronage dividends	4,550	6,004

*Included in accounts payable and accrued liabilities

d) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and its proportionate interest in the CUPS joint operation and include 12 (2014 – 12) executive and senior management positions. Their aggregate compensation for the year included:

	2015	2014
Salaries and other short-term employee benefits	2,845	2,780
Post-employment benefits	303	291
Long-term employee benefits	385	(56)
Termination benefits and retiring allowances	—	—
	3,533	**3,015**

Mortgage loans to key management personnel bear interest at 1.0 to 1.4 percent (2014 – 1.0 to 1.4 percent) and are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at year-end. The table below presents the outstanding balances and transactions with key management personnel related to mortgage loans:

	2015	2014
Balance, beginning of year	1,720	1,239
Advances	595	586
Repayments	(499)	(105)
Balance as at December 31	**1,816**	**1,720**

17. RELATED PARTY TRANSACTIONS (CONTINUED)

e) Transactions with directors

	2015	2014
Remuneration paid to directors	222	238
Expenses paid on behalf of directors	92	93
	314	**331**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors range from $6 to $33 (2014 – $10 to $36), with an average of $16 (2014 – $17) per annum.

Commercial loans of $12,876 as at December 31, 2015 (2014 – $7,824) are due from entities controlled by directors of Alberta Central.

18. CAPITAL MANAGEMENT

Alberta Central's objectives when managing capital are:

- To balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate
- To maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- To maintain a consistently strong credit rating and investor confidence
- To comply with the capital requirements set by its regulators

Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta Treasury Board & Finance (Alberta TBF). These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Federal regulation (OSFI) requires Alberta Central to maintain a borrowing multiple of 20:1 or less while provincial regulation (Alberta TBF) requires Alberta Central to maintain a borrowing multiple of 15:1 or less.

As an integral component of its capital management, Alberta Central has established internal operating capital targets above the regulatory minimum to ensure it has appropriate buffers to absorb increases in member deposits or loans and notes payable and/or reductions in its capital. Establishing internal operating capital targets allows Alberta Central to practice prudent capital management.

18. CAPITAL MANAGEMENT (CONTINUED)

As at December 31, 2015 and 2014, Alberta Central's capital levels exceeded both regulatory and internal capital requirements. The table below summarizes the composition of regulatory capital:

	2015	2014
Common shares	237,835	224,928
Retained earnings	65,135	65,600
Less:		
Prepaid expenses	756	632
Deferred income tax asset	594	441
Investment in Celero excluding equity accounted income	3,220	3,543
Total regulatory capital	**298,400**	**285,912**
Excess of total regulatory capital over provincial capital requirements	**141,011**	**132,394**

19. FINANCIAL RISK MANAGEMENT

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance according to the risk appetite and tolerance as approved by Alberta Central's board of directors.

a) Credit risk

Alberta Central takes on exposure to credit risk, which is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Credit exposures arise from investment activities that bring debt securities and derivatives into Alberta Central's securities and derivatives portfolios, lending activities that lead to loans, and deposits held with third party financial institutions. Alberta Central is party to financial instruments with off-balance sheet credit risk that, in the normal course of operations, are used to meet its own and its credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. The average term of commitments is one year. In the normal course of operations, these commitments may expire without being utilized.

Alberta Central's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	2015	2014
Cash at other financial institutions	7,711	58,777
Securities	2,068,736	2,094,515
Loans outstanding and undrawn commitments	1,664,977	1,614,964
Derivatives	4,150	5,661
Items in transit (NOTE 10)	19,369	16,295
Other assets	756	2,002
Standby letters of credit and financial guarantees	3,648	6,296
	3,769,347	**3,798,510**

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central, as the manager of the Alberta credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of Alberta credit unions and their members. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* which identifies a basic standard of investment quality. There have been no significant changes in credit risk in securities from the prior year.

Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. In addition, all of Alberta Central's commercial lending is provided on a syndicated basis with credit unions. Alberta Central or an individual credit union may be positioned as the lead lender for any commercial loan. Approval for all syndicated loans over $1,000 is obtained from the Credit Union Deposit Guarantee Corporation (CUDGC). Alberta Central's credit risk exposure related to its commercial lending function is mitigated where it is not the lead lender, as management performs its own monitoring of its commercial loan portfolio. In addition, total commercial loans, leases, interests in pooling funds, other loans held and guarantees given by Alberta Central shall not exceed 150 percent of Alberta Central's members' equity as at the end of the previous fiscal year.

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- a board approved *Lending Policy*
- a management Credit Committee whose duties include review of lending policies and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the management Credit Committee
- use of a credit risk classification system, which assigns a risk rating from 1 to 9, where 1 is excellent risk and 9 is impaired risk – non-performing, to all syndicated commercial loans that are reviewed on a regular basis
- employment of personnel engaged in credit granting who are qualified and experienced in lending
- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- board approved quantified risk appetites and tolerances for borrower, industry, portfolio quality and geographic segments in the commercial loan and mortgage portfolio
- annual reviews of loans
- independent reviews by Alberta Central's internal audit group, which includes reporting the results to the management Credit Committee and Alberta Central's Audit and Finance Committee

The following tables show Alberta Central's maximum lending exposure to credit risk, by industry and by portfolio, without taking account of any collateral held or other credit enhancements. Alberta Central's commercial loans and mortgages portfolio is 99.9 percent (2014 – 94.1 percent) concentrated in Alberta.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

CREDIT RISK EXPOSURE BY INDUSTRY			2015	2014
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Finance and insurance	351,433	1,064,070	1,415,503	1,391,305
Retail	38,916	22,193	61,109	31,643
Office	51,421	75	51,496	46,252
Industrial/warehouse	30,526	6,460	36,986	29,960
Hospitality	27,688	—	27,688	36,403
Health care	22,720	—	22,720	23,714
Apartment rental	15,454	4,414	19,868	16,319
Technology	3,611	13,500	17,111	17,582
Land development	8,033	—	8,033	—
Real estate - other	3,265	—	3,265	17,097
Condominium construction	1,198	—	1,198	4,689
	554,265	**1,110,712**	**1,664,977**	**1,614,964**

CREDIT RISK EXPOSURE BY PORTFOLIO			2015	2014
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Credit unions	345,127	1,051,852	1,396,979	1,369,505
Commercial loans and mortgages	199,221	32,643	231,864	212,019
Cooperatives	1,656	21,217	22,873	19,214
Celero	3,611	5,000	8,611	9,082
Employee mortgages	4,650	—	4,650	5,144
	554,265	**1,110,712**	**1,664,977**	**1,614,964**

Collateral for the lending portfolio generally is as follows:

- Credit unions: general security agreements with the largest credit unions and security agreements over accounts and instruments from the remainder of the credit unions
- Commercial loans and mortgages: secured primarily by real estate, as well as a general security agreement, with a loan to value ratio of less than 75 percent at origination of the loan
- Cooperatives: secured by real estate
- Celero: general security agreement
- Employee mortgages: secured by the residence

All loans more than 30 days in arrears are considered to be past due. As at December 31, 2015 there is one loan in the amount of $140 (2014 – one loan in the amount of $459) that was past due but not impaired.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit quality of the securities can be assessed by reference to the rating system of DBRS, Moody's Corporation or Standard & Poor's Corporation. Alberta Central's *Investment Policy* states that the statutory investments held must be rated at least R-1 or P-1 for commercial paper and A for bonds. The credit risk related to equity investments in affiliates and cooperatives is limited as the *Credit Union Act of Alberta* restricts Alberta Central's investment in such entities to ten percent of members' equity without prior approval from Alberta TBF.

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, call options, index options and foreign exchange forwards. The instruments are primarily used to meet the needs of member credit unions. Other than credit risk, Alberta Central does not accept any net market risk exposure to derivative contracts entered into on behalf of member credit unions as it enters into offsetting contracts with other financial institution counterparties. At December 31, 2015, one foreign exchange forward contract existed with CUPS with a notional amount of $200 (2014 – $nil). Derivative assets and liabilities are marked to market with net changes in value recorded in net income. All non-credit union and non-related party derivative counterparties are with major Canadian financial institutions rated AA or higher (as rated by DBRS). Under its *Investment Policy*, Alberta Central has established trading limits for each institution.

The following tables show details of Alberta Central's derivative financial instruments with credit unions:

FAVOURABLE CONTRACTS	2015		2014	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Index options	132,865	1,966	140,619	3,116
Foreign exchange forwards	—	—	87,008	1,415
Interest rate swaps	170,000	2,184	63,000	1,118
Bond forwards	—	—	30,000	12
	302,865	**4,150**	**320,627**	**5,661**

UNFAVOURABLE CONTRACTS	2015		2014	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Index options	132,865	1,966	140,619	3,116
Foreign exchange forwards	—	—	87,008	1,415
Interest rate swaps	170,000	2,184	63,000	1,118
Bond forwards	—	—	30,000	12
	302,865	**4,150**	**320,627**	**5,661**

The weighted-average interest rate paid on interest rate swaps with credit unions was 1.61 percent (2014 – 1.94 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 1.58 percent (2014 – 2.55 percent). The net exposure is offset through interest rate swaps entered into with other financial institution counterparties.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central is party to a *Credit Support Annex*, which requires Alberta Central to pledge cash to the extent that the net value of swaps with a certain major Canadian financial institution decreases below a specified level. Cash and cash equivalents on the statement of financial position includes $nil (2014 – $nil) of cash pledged with the financial institution.

b) Liquidity risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. Alberta Central's sources of funding are deposits from member credit unions, its commercial paper program and a line of credit with Central 1.

The majority of deposits from member credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

As discussed in Note 13, Alberta Central, Central 1 and the credit union centrals of Manitoba and Saskatchewan are parties to a group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement*. The participating centrals are also parties to the *Inter-Central Liquidity Agreement*, which provides emergency liquidity to a participating central in the form of a loan through a multi-lateral credit facility, whereby Alberta Central has committed $400,000. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The balance in qualifying liquid assets as required under the *Inter-Central Liquidity Agreement* and provincial legislation as at December 31, 2015 was $1,430,661 (2014 – $1,384,232). Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of the requirements under the *Inter-Central Liquidity Agreement* and those under provincial legislation.

Contractual maturities for financial liabilities are shown in the table below:

	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	TOTAL
Members' deposits	1,897,561	295,882	23,700	2,217,143
Accounts payable and accrued liabilities	4,653	—	—	4,653
Loans and notes payable	141,190	—	—	141,190
Derivative financial liabilities	—	274	3,876	4,150
December 31, 2015	**2,043,404**	**296,156**	**27,576**	**2,367,136**
December 31, 2014	**2,065,740**	**190,695**	**58,019**	**2,314,454**

c) Market risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's *Investment Policy*, which limits net exposures that can be maintained in various currencies. Alberta Central is not exposed to significant foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing dates and basis (e.g., the benchmark interest rate) of interest rate sensitive financial assets, derivatives and financial liabilities. Alberta Central uses simulation modeling to monitor and manage interest rate risk. It also uses gap analysis to assess interest rate risk by measuring the difference between the amount of financial assets and financial liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position as at December 31, 2015, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals. As Alberta Central's holdings of ABCP were converted to floating rate notes (Note 7), the related assets have been grouped in the 'within three months' category, as the interest rates re-price during that time period.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	GREATER THAN 5 YEARS	NON-INTEREST SENSITIVE*	TOTAL
Assets						
Cash and cash equivalents	7,711	—	—	—	7,744	15,455
Securities	1,498,211	539,827	35,823	—	(5,125)	2,068,736
Loans	373,871	41,467	108,539	30,388	(1,403)	552,862
Derivative financial assets	—	274	3,876	—	—	4,150
Deferred income tax and other assets	—	—	—	—	29,953	29,953
	1,879,793	581,568	148,238	30,388	31,169	2,671,156
Weighted average interest rate	0.98%	1.26%	3.18%	3.80%		
Liabilities and Members' Equity						
Members' deposits	1,881,017	295,882	23,700	—	16,544	2,217,143
Accounts payable and accrued liabilities	—	—	—	—	4,653	4,653
Loans and notes payable	141,232	—	—	—	(42)	141,190
Derivative financial liabilities	—	274	3,876	—	—	4,150
Members' equity	—	—	—	—	304,020	304,020
	2,022,249	296,156	27,576	—	325,175	2,671,156
Weighted average interest rate	0.60%	0.77%	1.15%	—		
Total interest rate sensitivity gap	(142,456)	285,412	120,662	30,388	(294,006)	—
Cumulative interest rate sensitivity gap:						
December 31, 2015	**(142,456)**	**142,956**	**263,618**	**294,006**	**—**	**—**
December 31, 2014	**(226,416)**	**57,482**	**276,361**	**300,715**	**—**	**—**

*Provisions and fair value adjustments are included as non-interest sensitive.

The following represents Alberta Central's interest rate risk position:

	2015	2014
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(5,083)	(5,197)
Decrease in interest rates of 100 basis points	3,980	5,525
Impact on net income from:		
Increase in interest rates of 100 basis points	1,064	479
Decrease in interest rates of 100 basis points	(5,193)	(2,314)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central's most significant other price risk relates to its holdings of ABCP (Note 7). Alberta Central manages its other price risk by adhering to an *Investment Policy*.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Alberta Central's financial instruments is determined as follows:

FINANCIAL INSTRUMENT	DETERMINATION
ABCP	Based on broker bid prices or adjusted proxy bid prices for similar instruments with similar maturity dates as described in Note 7
Floating rate notes and bonds	Based on broker quoted market prices
Commercial paper, bankers' acceptances and bearer deposit notes	Based on discounted cash flow model using market interest rates or prices for similar instruments (interest rate curve)
Treasury bills	Based on discounted cash flow model using treasury bill interest rates (T-bill curve)
Loans receivable, members' deposits and loans and notes payable	Based on discounted cash flow model using market interest rates for similar instruments
Derivative financial instruments	Based on recent market transactions for similar derivative instruments or if recent market transactions are not available, based on discounted cash flow model

The fair value of certain unquoted equity securities classified as available-for-sale securities cannot be reliably measured because trading is restricted, no market exists and they are issued by CUCC or other co-operative entities, or prices from recent market transactions are not available. Therefore, these securities are carried at their cost of $1,415 (2014 – $1,412). Alberta Central holds one additional available-for-sale equity security in a cooperative enterprise which does not have a quoted market price in an active market; however, it is recorded at its fair value of $4,510 (2014 – $4,510) based upon the most recent transaction. Alberta Central has no plans to dispose of these securities as of the date of these financial statements.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and loans and notes payable approximates their carrying value due to their short term nature.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS [CONTINUED]

The fair value and related carrying value of all financial instruments, excluding those whose fair value and carrying value are the same or are presented at fair value in the financial statements, have been summarized below:

	2015		2014	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets				
Loans	552,862	557,810	414,269	417,598
Financial liabilities				
Members' deposits	2,217,143	2,218,270	2,275,904	2,276,744

Financial instruments measured at fair value on the statement of financial position must be classified within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

Financial assets at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents	15,455	—	—	15,455
Securities				
Held for trading	—	193,820	—	193,820
Available-for-sale	—	1,863,665	—	1,863,665
Derivative financial assets	—	4,150	—	4,150
Items in transit, net	19,369	—	—	19,369
December 31, 2015	**34,824**	**2,061,635**	**—**	**2,096,459**
December 31, 2014	**82,747**	**2,089,133**	**—**	**2,171,880**

Financial liabilities at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative financial liabilities	—	4,150	—	4,150
December 31, 2015	**—**	**4,150**	**—**	**4,150**
December 31, 2014	**—**	**5,661**	**—**	**5,661**

21. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

22. EVENTS AFTER THE REPORTING DATE

On February 24, 2016, Alberta Central's board of directors declared a share capital dividend to members of approximately $6,500 for payment on March 11, 2016. The board also declared a patronage distribution of $8,100 to Alberta credit unions for payment on March 11, 2016.

CORPORATE INFORMATION

MANAGEMENT TEAM

Graham Wetter
PRESIDENT & CEO

Duane Blahun
CHIEF STRATEGY AND MEMBER ENGAGEMENT OFFICER

Susan Borrows
CHIEF PEOPLE AND CULTURE OFFICER

Steve Dunn
CHIEF TECHNOLOGY AND PAYMENTS OFFICER

Anne Gillespie
CHIEF FINANCIAL AND RISK OFFICER

Sean Lesy
CHIEF INVESTMENT OFFICER

Kate Hill
CHIEF GOVERNANCE AND COMPLIANCE OFFICER

Rhonda Bendiak
DIRECTOR OPERATIONS

Peter Davis
DIRECTOR, GOVERNMENT RELATIONS

Tom Dent
DIRECTOR, PROJECT MANAGEMENT OFFICE

Pat Dolan
DIRECTOR, TREASURY

Colleen Fortuna
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Alanna Gaudet
DIRECTOR, REGULATORY COMPLIANCE

Tara Gerla
ASSISTANT CONTROLLER

James Hanscomb
ASSISTANT CONTROLLER

Chris Laxton
DIRECTOR, RISK MANAGEMENT AND AUDIT SERVICES

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